MEETING

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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JAMES F. PETERS, CSR
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APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Theresa Taylor, Vice Chairperson

Malia Cohen, also represented by Deborah Gallegos

Fiona Ma, represented by Frank Ruffino

Lisa Middleton(Remote)

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Yvonne Walker(Remote)

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Daniel Booth, Deputy Chief Investment Officer

Peter Cashion, Managing Investment Director

Sarah Corr, Managing Investment Director

Amy Deming, Investment Director

Jean Hsu, Managing Investment Director

Michael Krimm, Investment Director

APPEARANCES CONTINUED

STAFF:

Anton Orlich, Managing Investment Director

Christine Reese, Investment Director

Lauren Rosborough Watt, Investment Manager

Tamara Sells, Associate Investment Manager

ALSO PRESENT:

Valeria Alvarez, United Food and Commercial Workers

Michael Angulo, Worker Power Institute

Erika Aritonang, American Federation of State, County and Municipal Employees Local 3299

Ronald Bermudez, UNITE HERE Local 11

Natisha Booker, American Federation of State, County and Municipal Employees Local 3299

Maria Brambila, UNITE HERE Local 11

Jeffrey Bree, Ironworkers Local 433

Terry Brennand, Service Employees International Union, California

Dareon Chambers, Rising Sun

Valentina Dabos, Private Equity Stakeholders Project

John Dalrymple

Jason Opeña Disterhoft, Majority Action

Erik Estrada

Jakob Evans, Sierra Club California

Jovana Fajardo, Alliance of Californians for Community Empowerment

APPEARANCES CONTINUED

ALSO PRESENT:

Jordan Fein, UNITE HERE Local 11

Steve Foresti, Wilshire Consulting

Jared Gaby-Biegel, United Food and Commercial Workers

David Huerta, Service Employees Internation Union, United Service Workers West

Anne Hillborn

Chris Houtson, International Brotherhood of Electrical Workers

J.J. Jelincic

Jaycel[phonetic], Rising Sun

Kristin Lopez, Alliance of Californians for Community Empowerment

Michael Mark, Sheet Metal Workers Local 104

Evan Marrufo, International Brotherhood of Electrical Workers, Local 952

Susan Minato, UNITE HERE Local 11

Jennifer O'Dell, Laborers International Union of North America

Andres Oliveira

Anne Marie Otey, Los Angeles Orange Counties Building & Construction Trades Council

Manuel Pinero, Monterey Santa Cruz Building Trades Council

Jessa Rego

Maria Rodriguez, United Food & Commercial Workers

Frank Ruiz

APPEARANCES CONTINUED

ALSO PRESENT:

Jeremy Smith, State Building and Construction Trades Council of California

Yvette Simon, Service Employees International Union Local 521

Rachel Sulkes, UNITE HERE Local 11

Mark Swabey

James Thuerwachter, California State Council for Laborers

Tom Toth, Wilshire Consulting

Jessye Waxman, Sierra Club

Nick Weathers, Helmets to Hard Hats

Jonathan Weissman

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PROCEEDINGS

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

BOARD CLERK ANDERSON: David Miller.

CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Theresa Taylor.

VICE CHAIR TAYLOR: Here.

BOARD CLERK ANDERSON: Deborah Gallegos for Malia Cohen.

Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Lisa Middleton?

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 ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK ANDERSON: Yvonne Walker.

COMMITTEE MEMBER WALKER: Here.

BOARD CLERK ANDERSON: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

BOARD CLERK ANDERSON: Dr. Gail Willis.

CHAIR MILLER: Okay. Good morning, Board members. Because we're not all present in the same room and Board members are participating from remote locations that are not accessible to the public, Bagley-Keene requires the remote Board members to make certain disclosures about any other persons present with them during open session. Accordingly, the Board members participating remotely must each attest either that they are alone or if there are one or more persons present with them who are at least 18 years old, the nature of the Board member's relationship to each person. At this time, I'll ask each remote Board member to verbally attest accordingly. Please conduct the roll call attestation.

BOARD CLERK ANDERSON: Yvonne Walker.

COMMITTEE MEMBER WALKER: I attest.

CHAIR MILLER: Okay. I think that will do it.

So moving on to our next order of business is our Executive report. So I turn to our Chief Executive.

CHIEF EXECUTIVE OFFICER FROST: Good morning, Chair Miller -- (clears throat) -- excuse me, -- and members of the Committee. I will be providing the executive report this morning. As I'll note for the record, both Dan Bienvenue and Matt Jacobs are in Washington D.C. They'll be testifying at a Congressional hearing on Wednesday morning. That will be 7:30 our time.

And I think also equally important to participating in that hearing is the Recent work that we've been doing on shareholder rights. I'll provide a more full report on that in my CEO report on Wednesday. So I'll spare you that for right now. And then before divide -- excuse me diving into today's agenda, I'd like to just highlight a few items for the Committee.

First, very excited to note for the record officially the start date of Stephen Gilmore our new Chief Investment Officer. He will begin his CalPERS duties on July 15th joining us at the Board off-site in Monterey, California. As you know, Stephen comes to us from New Zealand Super. He's been in contact throughout his hire date or his official announcement date with the team. I think gaining a lot of information both about the team and the portfolio. So as he begins his journey here on July 15th, he'll be ready to go.

And just as a reminder, some of the attributes that we saw in Stephen I know all of you participated in his hiring. He is a respected investor and I think we certainly have seen that validated after the announcement was made the number of people reaching out to not only me, I think to some of you, but certainly members of the Investment team. Not only a respected investor, but also very strong people relationships, strong communication skills, and that he has a background that really would lead him into being resilient in this -- you know, in this role, which is something that we -- that was extremely important based on the type of turnover that we've seen in this role over the last few decades.

So, secondly, I's also like to note, and I know she's sitting behind me, the pending retirement of Jean Hsu, the Managing Investment Director of Private Debt. Jean will be leaving us in July just after the Board off-site. And so while she is here today as her last official, you know, regular meeting, I'd like to thank her for her 25 years of service to CalPERS. A large portion of that time was spent in the Fixed Income team working with Arnie Phillips and Curtis Ishii at the time, where she really helped to build out the CLO portfolio during the financial crisis. And then most recently, Jean has led the development of our private debt program and under her leadership has built a team who will be successful after her retirement, in particular deploying the new allocation of private debt that this Board recently approved.

So turning to today's agenda, we'll start with the information items. We will hear the metrics for the PERF as of March 31st and also some brief notes on current market and economic conditions over the last quarter and our associated performance both for the quarter, but really more importantly over the long term of the fund. Michael Krimm and Lauren Rosborough Watt will present this item. We then we'll hear the annual program reviews for our private markets. This is the first time we are bringing all of those updates together. So Anton Orlich, Jean Hsu, and Sarah Corr will bring us the port -- (clears throat) -- excuse me -- portfolio performance as well as the risk analysis for the last year.

And then Peter Cashion and Tamara Sells will provide us with an update on the implementation of labor principles. Very happy with the activity that we've seen as we've sent those out for agreement and attestation. And, as you know, you adopted those last November. So the team has been busy making sure that we get the implementation processes in place.

Moving to our action items, this will be followed by a presentation from Christine Reese on the analysis related to our mid-cycle asset liability management review of the Affiliate Funds.

And then finally, the team will present second reading of proposed revisions to the Total Fund Investment Policy and the second reading of proposed revisions to the Responsible Contractor Policy.

And with that, I'll turn it back over to Chair Miller.

CHAIR MILLER: And President Taylor.

VICE CHAIR TAYLOR: Yes. First, I'd like to say, Jean, we are certainly going to miss you. I'm -- you're not old enough to retire I'm sorry --

(Laughter).

VICE CHAIR TAYLOR: -- but I wish you well and we will definitely miss you.

Then, Marcie, I just want to make sure that I highlight the team's defense of the fund's fiduciary interests through the strong position that you've taken on Exxon and its continuation to sue its shareholders. So it's just the Board really fully supports this. It's just so incredible that we're in this situation right now and I'm so very proud of the staff and everyone for working so hard to protect our shareholder rights, the democracy of shareholder rights and continue -- and we wish you to continue the good work.

CHIEF EXECUTIVE OFFICER FROST: All right. Thank you.

CHAIR MILLER: Okay. Thank you.

Okay. That moves us on to action consent items. We've got the approval of the June Investment Committee timed agenda and approval of the March Investment

Committee.

VICE CHAIR TAYLOR: Move approval.

COMMITTEE MEMBER PACHECO: (Hand raised).

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

I'll call for the question.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Yes.

BOARD CLERK ANDERSON: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Yes.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

BOARD CLERK ANDERSON: Lisa Middleton?

Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK ANDERSON: Dr. Gail Willis?

CHAIR MILLER: Okay. The ayes have it. The motion passes.

I have no requests to pull any of the information consent items. We'll move on to our information agenda items.

CHIEF EXECUTIVE OFFICER FROST: All right. So Item 5a, I'll invite Michael Krimm and Lauren Rosborough Watt to the presenters panel, please.

(Thereupon a slide presentation).

CHIEF EXECUTIVE OFFICER FROST: So as I noted in my opening remarks, this agenda item provides a quarterly update on portfolio performance and the markets more broadly. This is the interim quarter report, which we provide in June and November as a condensed version of the more comprehensive semi-annual trust level review done in March and September.

So with that, I'll turn it over to Michael.

INVESTMENT DIRECTOR KRIMM: Good morning. Michael Krimm, CalPERS Investment Office.

Can we get the second slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR KRIMM: Actually, the next one.

[SLIDE CHANGE]

INVESTMENT DIRECTOR KRIMM: All right. So I'm going to review some of the return and risk highlights for the Public Employees' Retirement Fund, or the PERF. All of this information will be as of March 31st unless noted otherwise. We will be providing a more thorough review of performance, positioning, and risk at the end of the fiscal year.

I'm going to start with longer term performance. As of March, PERF's annualized 10-year total return was 6.6 percent. And PERF net asset value ended the quarter at $495 billion. Cumulative five year value-add was $445 million. I'm going to take a little time to explain the value-add metric, because it's still relatively new in our reporting.

Value-add represents the difference between the return of the portfolio versus a theoretical investment into the policy benchmark. It is a rough way of tracking the effect of active management and portfolio implementation decisions relative to the benchmark. Being a relative metric, value-add is not to be confused with the total dollar investment returns generated by the portfolio. For example, while the five-year value-add, shown here, was 445 million, the total investment dollar return for the same five-year period was $147 billion.

The reason we like to zoom in on value-add is because it lets us look, albeit imperfectly, at the return drivers we can more directly influence via day-to-day portfolio management. In contrast to the returns attributable to the broad outcomes of global markets, which the benchmark is intended to represent.

Stepping now from the longer term outcomes to the current year. Through March 31st, PERF has generated a fiscal year-to-date return of 7.8 percent. For this same period, value-add versus the benchmark was minus 2.8 billion. And just to be clear, these fiscal year-to-date results are already included in the longer term five and ten year numbers as well.

As is usually the case for shorter periods, the current fiscal year returns were dominated by the performance of the equity market. Our largest segment is cap-weighted equities, which generated a 16.7 percent return so far this fiscal year. That magnitude of return is not actually all that unusual for equity markets. What is interesting though is that equities were already doing well in the first six months of 2023, in other words, before the fiscal year started. For the period from January 2023 through this March, our cap-weighted segment has generated a cumulative 33 percent return. That bull run in stocks coincides with the period in which most economists had been predicting a recession. As in 2022, the Federal Reserve had rapidly raised interest rates to levels that would previously have been considered very restrictive.

Looking at the value-add number for the fiscal year, the negative result is entirely attributable to private equity underperforming its public market benchmark. All of our other asset classes are showing positive excess returns this fiscal year. By the way, a lot of these different periods and all the individual asset classes are in Attachment 1 of this report, if you want to reference the details.

So one may ask did private equity perform poorly so far this fiscal year. Actually, it has done reasonably well returning plus 7.1 percent for this same period. However, private equity's benchmark which is based on public equities was up by 16 percent, thus leading to the negative value-add figure for the fiscal year-to-date.

As we've discussed here before, private asset valuations are appraisal based. They tend to move both up and down more slowly than the public markets with the result that these kinds of swings in relative returns of private equity and its public benchmark are not infrequent. Basically, whenever you have a rapid rise in public valuations, private equity is likely to trail behind and vice versa in the other direction.

To emphasize that point, just over a year ago at the end of calendar year 2022, private equity was showing one year outperformance over its public benchmark of plus 17 percent, because during that particular year, 2022, public equity prices had fallen rapidly. In the long run, both private equity and public equity share the same economic fundamentals, differences in return due to different valuation processes will eventually converge.

Let me now shift briefly to positioning and risk, and also some of our investment activity. That's more the bottom row here.

We continue to focus on building out our private market allocations at a measured pace and also continue to seek opportunities to increase value-add in public markets. As of March 31st, PERF had a 30.6 percent allocation to private assets. And 54 percent of assets in total were actively managed. Earlier in March, you, the Investment Committee, approved changes to the strategic asset allocation that included target allocations to private assets of 40 percent. So directionally, there will be a continued plan to grow these allocations, but of course this will take place over a multi-year strategic time horizon.

On the risk dimension, we put some of the classic metrics on the page. I'll just really quickly comment, portfolio volatility and liquidity coverage both are at the levels that indicate the portfolio remains within expectations. The actionable tracking error of 14 basis points is low relative to the policy limit of 100 basis points. This metric captures the level of difference between our public assets and the benchmark. It tells us that there is leeway, if we see opportunity to seek additional sources of value-add in public markets just as we have opportunity in privates.

I'm going to let Lauren -- she's going to cover the economics and markets and then we'll take questions.

Thank you.

CHAIR MILLER: Okay. And before you start, I'm told that Director Middleton has joined us, so I'm going to do the attestation really quickly before you start Lauren.

So because we're not all present in the same room and Board members are participating from remote locations that are not accessible to the public, Bagley-Keene requires the remote Board members to make certain disclosure about any other persons present with them during open session. Accordingly, the Board members participating remotely must each attest that either they are alone or if there are one or more persons present with them who are at least 18 years old, the nature of the

Board member's relationship to each person.

At this time, I'll ask Director Middleton to verbally attest accordingly.

COMMITTEE MEMBER MIDDLETON: I do so attest.

Thank you.

CHAIR MILLER: Thank you, Director Middleton.

Back to you, Lauren. Thank you.

INVESTMENT MANAGER ROSBOROUGH WATT: Of course. Thank you. Good morning, everyone. Thank you again for having me here today. Lauren Rosborough Watt from the CalPERS Investment Office.

So as Michael mentioned, the past year we have seen some stellar returns driven predominantly by public markets. And of these returns over the past year, the Magnificent Seven group have attributed to the lion's share of these gains. Thirty plus percent total return for that index from 1 July 2023 to 31 March 2024. Indeed, the Mag Seven now account for around a third of the S&P 500 index and are little over 10 percent of global stock market capitalization.

Some of the Mag Seven returns are specific to their individual industries and trends, and hence why I pointed out. Although the global growth has supported equities and the economic environment has supported equities more generally. The U.S. economy in real terms rose 1.3 percent quarter on quarter seasonally adjusted annual pace in Q1 and that followed a stellar 3.4 percent Q on Q seasonally adjusted pace in December.

Developed market economies ex-U.S. moving through their 2023 slow down. In Q1 some economies improved, but in general real economic activity there remains modest. Emerging market and developed economies were -- developing economies, sorry, where central banks have been reducing interest rates for some time, reported a 4.3 percent return in 2023 calendar year.

So could you move to the final slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you.

So positive -- next slide. Thank you.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Positive economic activity. The Federal Reserve moving to on hold with interest rates and a lack of negative external shocks have allowed market prices to continue to appreciate. The recent economic expansion and indeed, as Michael pointed out, the extension of the expansion in 2023 has resulted in relatively high valuations across some asset classes.

For example, according to Yale economist -- Yale academic, Bob Shiller, the U.S. cyclically adjusted price earnings index for the U.S. is at 35 times, and that's above its post-World War II average of 19 times.

The investment grade and high yield bond spreads have performed well this calen -- this fiscal year. They're near historical tightness to treasuries, so this spread relative to treasuries. And that's on what we call and option-adjusted basis. Looking ahead, the IMF anticipates the global economy will enter a more broad based and modest pace of growth with some support from developed market central back policy easing. And to date, we've had four developed market central banks starting to ease policy.

And by contrast, expectations for reductions in the federal fund's rate by the Federal Reserve have been pared back in recent months, most recently on Friday. There's now less than one basis -- one 25 basis point rate cut priced in by the Fed for the rest of this year.

With respect to the U.S., the U.S. labor market is showing some tentative signs of being in better balance. Consumption growth is moderating, but remains buoyant. Inflation is easing back although at a slow pace. I'll speak a little bit more around that later.

And the fiscal impulse of the marginal change in fiscal spending is slightly negative, so that it acts as a small drag -- or expected to act as a small drag on growth into the future.

So these softer trends are widely expected into 2025. Market economists have very consensus views around the outlook for both the U.S. And the range of views is very narrow. So rather than this pointing to greater confidence around the outlook, the rhetoric around these forecasts suggests most economists would anticipate a faster slow down, but are just not seeing it in the data. And Michael mentioned last year the same with respect to expectations for a recession in 2023 that was not realized. Hence, there's a lack of surety around the direction both in the near term and in the medium term for the U.S. economy.

In addition to the cyclical easing and activity that's anticipated, there are underlying drivers, what we call secular forces that are expected to continue for quarters and indeed possibly years to come. For example, the green transition, artificial intelligence investment, deglobalization reassuring, and global defense. And these are expected to be persistent positives for global and the U.S. economies and activity going forward. The secular shifts are relatively interest rate insensitive.

This is a good news story in general for real growth. It's likely to be a supporting factor going forward, but these underlying shifts and historical relationships either secular, so long term or persistent, or regime changes. And I've spoken to you before about behavioral changes in relationships. It means typical economic indicators are possibly less reliable than in the past, at least in the short term, which might part explain the lack of confidence in outlook by market economists.

The combination of both demand and supply factors moving at the same time is not a common occurrence and it makes for greater macroeconomic uncertainty. Indeed, the combination of these factors is one reason why global inflation rose quite rapidly in 2021 and has struggled to revert back to its target of two percent.

With respect to inflation, the path for inflation from here still remains challenged here in the U.S. Some aspects of holding inflation up will drop out in early 2025, which should allow it to slip closer to its two percent target. However, as I mentioned, there are some risks that counter this disinflation, for example, the secular trends I mentioned.

So the forecast path for inflation from here and resilient real macroeconomic indicators places risks that the Federal Reserve does not reduce rates at the pace priced in by market participants. Although, it looks like market participants is starting to price in that expectation as well.

The longer rates remain elevated or if the Fed resume rate hikes, the more this will bite on the economy and real short-term yield, so that's the nominal short-term interest rate minus inflation, is at its highest level since 2007. And as you know, higher interest rates act as a drag on some sectors. We've seen that in real assets over the past year.

More broadly, and in addition to the factors listed earlier, the heightened geopolitical backdrop increases uncertainty for both growth and inflation prospects. Together, these present risks, but also opportunities for the fund going forward.

Thank you for your time. Michael and I are happy to take questions.

CHAIR MILLER: Okay. I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Chairman Miller and thank you for your presentation. First of all, I'd like to go back to your question. First of all, thank you for your presentation. Very excellent on both accounts.

I'd like to go back to the geopolitical question and the challenges you see. You know, we just recently had an election in Mexico with, I think, Dr. Claudia Steinberg[SIC] -- Steinbaum[SIC]. And I noticed that the peso dropped, you know, after that election. There are -- you know, are -- again are pending issues with the U.S.

election coming up and certain other geopolitical avenues around the world. How do you see that playing out with respect to the economy and in terms of our system.

INVESTMENT MANAGER ROSBOROUGH WATT: Very -- thank you for your question. A very broad question. In fact, they were voting for the European parliament election -- (cleared throat) -- excuse me -- that occurred over the weekend. And, in fact, there was also demonstration over a shift in voting towards the right in the case of Europe. And how I interpret that from a macroeconomic perspective is greater potential volatility in growth and inflation, also greater uncertainty more generally going forward.

COMMITTEE MEMBER PACHECO: I would concur with that as well. The other -- my question is, it's back to the metrics question, with respect to the forecast actionable tracking error of 14 basis points relative to the 54 percent allocation to the active management assets. Now, if I recall, we have a 100 basis points in our policy band. And just the curiosity is you mentioned that we still have enough runway for more active management. If you can elaborate a little bit and how that -- how the two relate, if so. Thank you.

INVESTMENT DIRECTOR KRIMM: So let me start with how they relate. Of course, the private assets are all considered actively managed. And so the remainder is actively managed public abscess. So in terms of the sheer dollars, if we were to move more public assets into active strategies, that would increase the tracking error. The most obvious place to do that would be the public equity portfolio where a significant portion of portfolio is still indexed.

However, in public markets, it's not really just about dollars, it's also about what you do with the dollars. So we could choose, if there was opportunity, to invest the -- them a little more aggressively relative to the benchmark. And I'm not saying that there's a particular plan for that. I'm just talking about the opportunity. So you can -- you can change both the level of relative risk that you're taking to the benchmark with the assets that you're actively managing or you can add more actively managed assets.

COMMITTEE MEMBER PACHECO: And that's just with respect to the public equities, not --

INVESTMENT DIRECTOR KRIMM: That's a public bench --

COMMITTEE MEMBER PACHECO: -- not -- with respect to the private ones, we don't -- we can't really measure that.

INVESTMENT DIRECTOR KRIMM: We -- well, we --

yes, that's right. So we can -- we can metricize private risk taking, but it doesn't fit neatly into a risked model like a tracking error.

COMMITTEE MEMBER PACHECO: Right.

INVESTMENT DIRECTOR KRIMM: So we track that with the various policy constraints we have on concentration limits, manager concentration, strategy limits, and that kind of thing.

COMMITTEE MEMBER PACHECO: Okay. Very good then. Thank you, Chairman Miller.

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

VICE CHAIR TAYLOR: Thank you, Chair Miller. So first, I want to thank you guys for the report. And I was going to ask kind of the same question, especially after the European Union's elections. So is it my understanding in general, at least in this country, that when -- we're -- the right takes over it seems to like cause quite a boom in the economy for a little bit and then it evens out based on the very favorable view of laissez-faire economics, is that -- so is that going to be a worldwide thing or because of, you know...

INVESTMENT MANAGER ROSBOROUGH WATT: So what we're -- what -- so here -- thank you for your question. What history tells us is that after major events that there does tend to be a swing towards the right. So in some ways, this isn't a surprise. That said, with respect to the European elections, it hasn't -- it's changed at the margin, but it certainly hasn't change the core. France has -- the President has dissolved, in terms of going back for parliamentary elections in order to allow all voters to decide exactly where they sit on that spectrum.

And in terms of what that means for policies it's very country specific what moving to the right actually suggests. And so I think it would be difficult to say on a global side, other than what I've expressed before in that you end up with many moving parts and a lot more idiosyncratic effects rather than a general global, you know, globalization that we had in the 1990s onwards. That was a general trend that occurred across all countries. What I would argue now is that it's more idiosyncratic and more country specific.

VICE CHAIR TAYLOR: So -- and clarify this for me, it's the European Union election, so that means what they decide, whoever is in the European Union, has to abide with, correct? Is that incorrect?

INVESTMENT MANAGER ROSBOROUGH WATT: So the elections over the weekend were for the European Parliament, that's the group that makes the laws and the rules on behalf of all Europeans, um-hmm. It occurs every five years.

VICE CHAIR TAYLOR: So it could be something that they do, then the countries may not necessarily agree and so there's going to be that push and pull, is that what you're saying?

INVESTMENT MANAGER ROSBOROUGH WATT: So the -- how Europe tends to work tends to be sort of a compromise or an agreement. It does take quite a long time to come with these laws in order to hear all voices and come up with some form of consensus. So to that end, I would say perhaps there is a shift in that direction, but that would be marginal rather than dramatic.

VICE CHAIR TAYLOR: Okay. As compared to here. Okay. Well, thank you very much. Lots to look forward to. I just wanted to -- I know it's not covered here this month, so I wanted to thank you both for your report, but also I wanted to recognize staff for our shareholder season, because I don't think we're doing that here and we do that report later on. But I want to acknowledge that the staff votes on thousands of companies and public markets, which is the largest part of our portfolio. So we do appreciate your efforts, we know what's going on, and we fully support you and thank you very much.

CHAIR MILLER: Yeah, I would second that. And I will move to Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you. I just want to follow up on Mr. Pacheco's question on the actionable tracking error and your comments just now about idiosyncratic risk and more volatility. So it seems like we have room to take more tracking error in the portfolio and perhaps return alongside with that. Yet, we're faced with more volatility with all these global elections. It's not just Mexico and Europe. It's India. It's worldwide it seems.

So I'm not sure if it's a question or a statement, but I would just encourage, and maybe with a new CIO, staff to talk about how we manage this going forward, because we certainly want to take advantage of the opportunity in this -- with this idiosyncratic risk that faces us, but protect ourself should the volatility present itself as well.

INVESTMENT DIRECTOR KRIMM: Yeah. I'll take that as a direction for Stephen. I guess one only comment I would make, when it comes to active management, you know, taking positions, views on companies relative to the benchmark, market movement and volatility can actually be considered attractive, because it crates opportunities to take positions.

ACTING COMMITTEE MEMBER GALLEGOS: Exactly.

Thank you.

CHAIR MILLER: Okay. I think that -- I don't see any more requests for questions or to speak, and I thank you for the review and report and all the fine work that went into it from staff and everyone. And I look forward to what's above and beyond today.

Thank you. Next, we have the private equity annual program review.

CHIEF EXECUTIVE OFFICER FROST: Yeah. I'll invite Anton to the table. So as is required by our Investment Policy, this agenda item provides information on private equity's roll in the overall portfolio, the benefits and risk of investing in private equity, and the allocation activity to the asset class.

So, Anton, thank you.

MANAGING INVESTMENT DIRECTOR ORLICH: Good morning, members of the Investment Committee. Thank you for the opportunity to speak with you today.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR ORLICH: I would liked to start on slide three.

Thank you.

The role of the Private Equity Program is to enhance equity returns through active value-added approach. As part of increasing the ability to pay pensioners, we have increased the NAV in private equity and it stands at $73 billion as of March 31st, 2024. We have been transferring more equity risk from the public markets to the private markets, although public equity remains the largest portion of our portfolio.

Buyout remains the largest portion of the portfolio by far at approximately 67 percent of the portfolio. We do believe that private equity fully reflects our Investment Beliefs and staff works hard to manifest those beliefs in management of the private equity portfolio.

Slide four, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: We have spent a lot of attention over the last couple of years over the lost decade. And the major takeaway there is the underallocation that occurred in private equity and the inconsistent allocation to occur in private equity. As a result, the last three fiscal years have prioritized consistency and we have stayed within 15 percent of our target of 15 and half billion dollars per year in commitments.

Importantly, within those commitments, private equity has achieved a long-standing goal of 40 percent in co-investments. This long-standing goal is critical to being able to implement private equity in a cost-efficient manner, and in a manner that increases our net returns. For some time, approximately two decades, CalPERS private equity pursued a cost reduction strategy that was at the expense of net returns. Over the last couple of fiscal years, we're concentrating on manager selection to produce the best net returns and using co-investments to reduce the costs and provide structural alpha for the portfolio.

Slide five, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: On this slide, we're demonstrating the shift that's happened in the portfolio to enhance returns. For about two decades buyout has dominated the portfolio. And buyout does have a role to play, but we do believe that the buyout portfolio overly dominated the private equity exposure. As a result, over the last two fiscal years, we've shifted from a mix of approximately 80 percent of commitments to buyout versus non-buyout to 60 percent. This will provide a more diversified portfolio and provide CalPERS the opportunity to generate alpha by participating in segments of the private equity space that have greater returns version. As a result, manager selection will have a greater impact.

Within the buyout portfolio, we've also migrated from large buyout to middle market buyout. As you can see on the right-hand bar, we've achieved a milestone where middle market buyout commitments have exceeded large buyout commitments. Part of the increase in the middle market portfolio is an increase in essentially specialists, which we believe will provide more opportunities for alpha. Specialists can be in regard to a thematic or in regard to an industry, but we do believe that these managers have operational know-how, which will provide a source of alpha that is less dependent on leverage. This is an important theme for what we've achieved for the private equity portfolio over the last couple of years. And these commitments over time will change our NAV.

A reduction in dependence on leverage is reflected in having a higher proportion of the portfolio not in buyout, growth and manager -- growth managers and venture managers employ less leverage, or in some cases no leverage. And middle market sector specialists rely less on leverage to generate their returns.

Slide six, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: CalPERS has been selectively diversifying the geographic aspects of the portfolio over the last couple of years. To be clear, this has been a relatively minor theme compared to the other changes in the portfolio. And the intention is to keep the private equity portfolio U.S. centric. That said, there's been a moderate increase in the international component of the portfolio. I would like to highlight the 40 percent private equity exposure to United States shown on this slide versus the prior slide of 75 percent.

The difference between the two figures relates to whether or not we have a global look-through. As you can see here, global at 43 percent is a mandate that can invest in several developed markets, in some cases emerging markets. When that global is decomposed, that's how one arrives to approximately three-quarters of the portfolio in the United States. Their look-through would also take Europe to approximately 20 percent.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Here, we point to the change in the cash flow profile over the last decade. There's been increase in the private equity target, which in turn has caused more investment in the private equity asset class. In 2021, CalPERS approved increasing the PE target from eight to 13 percent, and in 2024 from 13 to 17 percent. As you can see on the right most bar, 2023 was a decidedly cash-flow negative year, reflecting the program's commitment to co-investment, which goes directly into the ground. The closest year in terms of cash flow negativity was 2021, but this is a tale of two different years.

In 2021, there was a large set of commitments to funds, which were deployed at historically fast pace for private equity and that was at full economics, whereas in 2023, a super majority of the commitments that were going in the ground immediately were in co-investment.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Several of the deployment themes that I have been discussing thus far are reflected and codified on this slide, the consistency by vintage year, investment in diverse emerging managers however is the one part I have not yet highlighted and is important. We believe this segment provides opportunities to enhance returns through diversity, diversity of teams, and diversity in areas where there's more return dispersion because of a segment called emerging managers.

Emerging managers have more upside and more downside. And we do believe that staff's emphasis on manager selection will provide more opportunity to generate alpha in this segment. Also, diverse managers reflecting our society in general do represent more diverse manager opportunities. So the two that would go hand in hand.

In terms of current concerns, the inflation and interest rate environment do potentially represent headwinds to the buyout portfolio. As a result, our shift to more non-buyout should provide a mitigant to this issue. However, we want to be clear, the changes that we're making to the private equity portfolio by moderating the amount of buyout are changes that we would desire to make in any case, because of the enhanced diversification that would come from adding venture and growth to the portfolio.

That said, the reduced leverage should provide opportunities. Also, uncertainty around valuations has put pressure on deal activity. This is significant, because it reduces the return profile over the duration in which managers provide cash back to investors. This affects us less because of our underallocation during the years that are currently up for what we would call harvesting. However, it does, to a lesser extent than our peers, affect our portfolio.

The bigger effect on our portfolio is reducing the number of co-investment opportunities. As M&A volume declines, there are fewer transactions. There are fewer co-investment opportunities. And this is a real testimony to the success of staff of being able to meet long-standing goal of the 40 percent in co-investment at a time when co-investment activity has declined. And this is a real point of accomplishment for the PE program and staff.

Page nine, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: We see here the performance of the Private Equity Program over many periods relative to the official benchmark, which is public equity based. I don't want to repeat too much from my colleague's, Michael Krimm's, presentation, but there is a significant timing difference which leads to a lot of noise in these statistics. Therefore, it is much more important to focus on the long term. And you can see that the Private Equity Program has outperformed the Public Equity Program on the ten- and three-year periods.

The 20-year period is close, although not outperforming public equity. And the one-year period has a pronounced difference with only approximately 10 percent return for private equity versus about 24 percent for the public equity benchmark.

We do believe that this is a result of the valuation policies of private equity, which smoothes returns both in up markets and in down markets. We do believe that the private equity portfolio will outperform as the public equity valuations get reflected in private equity valuations.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: What we see on this slide is a different metric of performance. The index is Cambridge, which shows essentially the opportunity set of private equity. In other words, what is the universe in which the staff is making manager selection decisions and how has that universe compared to how private equity at -- CalPERS private equity has made decisions.

Now, if you do believe our capital markets' assumptions, private equity outperforming public equity, and then we can potentially outperform the private equity universe over the long term. The CalPERS Private Equity Program outperformance versus public equity should be enhanced. We believe that we can achieve that through manager selection and an increased proportion of co-investment.

You can see here on the one-year, while it is early, the strategy is starting to payoff. And we expect this to be an indication of how the private equity portfolio will perform, eventually reflecting versus -- reflecting outperformance versus the public benchmark.

In the last year, which represents the first 12 months of the strategy, CalPERS private equity has outperformed the Cambridge benchmark by 6.4 percent. In 20 years of history, CalPERS private equity has not outperformed the Cambridge benchmark. The Cambridge benchmark is one of the major opportunity set benchmarks and this statistic would be similar with the other couple of major opportunity set benchmarks.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Page 11 shows the stylized savings that one can achieve through co-investment. Obviously, we have a large diversified portfolio with constituents delivering different returns. But what we're trying to do here is provide a straightforward directional estimate of how much can be saved by using co-investment instead of traditional fund investing.

Each $1 billion of co-investment savings -- each $1 billion of co-investment generates approximately $400 million in savings. These come in the form of management fees and profit share that does not need to be paid by the limited partner.

Importantly, about one-third of these savings are on the front end and two-thirds on the back end. So the savings that we're starting to see flow through the portfolio will accelerate and will be mostly realized on the back end, if the totality of our investments, which are profitable, do not need to pay carry.

On annual deployment budget of $15 and a half billion dollars and a 40 percent co-investment ratio, that one year of commitments would save approximately two and a half billion dollars. Therefore, directionally, over 10 years of commitments, we would save approximately $25 billion, which would be meaningful for our pensioners and the overall portfolio.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH:

Initiatives. I want to give some deep dives here on the integration of governance and sustainability into the portfolio. On labor principles, the program has coordinated with sustainable investments to adopt Labor Principles. While sustainable investments has led this process, private equity has played an important role in dialoguing with managers. We've also worked with our PE partners to obtain attestations that essentially provide broad alignment with our managers and provide a basis for a dialogue. Also, we have been scaling back or declining commitments to PE funds that have not been aligning with CalPERS on human capital issues.

In terms of diversity, CalPERS private equity has shifted the focus to smaller funds and buyout, growth and venture. And these do present opportunities to partner with more diverse managers. On average, those segments of private equity have more diversity. In Fiscal year '23 to '24, commitments to diverse managers have exceeded $4 billion. That does not include Project Mosaic. These are investments in the direct portfolio.

In addition, CalPERS hosted the Catalyst Diverse Manager Conference. In terms of diligence, we have actually had tremendous success here in working with sustainable investments as well. And we've increased the number of sustainability questions that are reflected in the CalPERS due diligence questionnaire.

Part of this process has been EDCI, which we'll discuss later in this deck. On climate, we've worked with sustainable investments to develop a pipeline to help meet the hundred billion dollar goal by 2030. We've made commitments to several specialized climate funds and made over $600 million of investments in climate solutions.

VICE CHAIR TAYLOR: Anton, you're on the wrong slide. There's a slide that goes with what you're talking about.

[SLIDE CHANGE]

VICE CHAIR TAYLOR: There we go.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

Yeah. So slide 13. I'm sorry. Yeah, that's very good.

Now, I would like to move to the next slide, which should discuss diversity, equity, and inclusion.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you. This provides detail on the diverse manager portfolio. The $4.2 billion again is in the direct portfolio. Now, I discussed earlier the linkage between the diverse and the emerging manager. We often use these terms together, but -- and they are supporting one another, but they are distinct. Diverse managers are what you would expect and we track this based on manager identification at the 25 and 50 percent threshold of ownership or carry distribution.

So of the $15 billion in commitments, over four billion were diverse managers, which represents a much greater proportion of the portfolio that is available in that segment according to third-party studies. In terms of emerging managers, which is that segment which may or may not be diverse, but is more likely to be diverse, and provides more opportunities for return dispersion, we've invested approximately $1.5 billion.

Project Mosaic, which is a $1 billion partnership, involving two firms, TPG Next and GCM Grosvenor, is not included in these figures. A deep dive on that program will be provided at the July Board meeting by sustainable investments.

The Next slide.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR ORLICH: Data convergence. This is absolutely critical to measuring change in ESG issues and we're proud to say that CalPERS has played an important role in co-founding EDCI in 2021. CalPERS certainly -- currently serves on the steering committee, and a member of the staff, Dan Tanner, who played a role in the creation of Data Convergence serves on the steering committee.

The growth of the program has been tremendous going seven GPs to over 200 GPs and from approximately 10 LPs to a hundred representing $26 trillion of AUM across these GPs and LPs.

In terms of the CalPERS portfolio, staff has worked to increase the managers participating in EDCI. We've gone from a 50 -- approximately 50 percent participation ratio to approximately 70 percent. We've achieved this while diversifying the portfolio and adding middle market managers, who were less inclined to be participants in EDCI, but have been able to increase the percentage of the portfolio participating by working with our managers to encourage their participation.

With that, I'll open it to questions.

Thank you.

CHAIR MILLER: Okay. We have several questions starting with Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you. Just a quick question back on slide nine and the discussion around the timing of asset valuation in the private markets compared to the public markets. And I just wondered if there's any difference in what you see in the timing from the shift to the growth from buyout. So would we expect the sort of same lag or is there difference in those types of opportunities?

MANAGING INVESTMENT DIRECTOR ORLICH: The lag should be comparable. The valuation policies in respect to how they would be reflected on this slide would be disconnected from market values. The valuation policies are a bit different in that it's harder to come up, for example, with public comparisons in the venture portfolio, but they do exist, and they are used.

So the key point here is less about the

differences in the evaluation policies, but rather the timing and the effort to find intrinsic value through the valuation process, rather than merely doing a mark to market.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And if I just add to that. So I think the underperformance that you've seen in calendar year '23 reflects or is offset by the outperformance that you saw in calendar year '22. So in other words, when the public markets went down, the private valuations held steady. And then as the public markets rallied, the private valuations didn't catch up as much. So if you take the two-year period, we're actually slightly positive.

COMMITTEE MEMBER ORTEGA: Thank you. I think just a little context for my question is just thinking long term that I would imagine there would be a point at which we'd want to say that this commitment to private equity was the right strategy and that we've sort of made up for past approaches in terms of obviously -- you can't compare the actual returns, but just thinking about maybe if there's a question about whether this is the right strategy how long it takes to sort of see that? And obviously, the one- or two-year term is not what I'm thinking about, but just sort of long term, but then you have to factor in that you don't see the returns as quickly and you may have someone saying that you could have just stayed in public equity, right? And that's what I'm kind of getting at is how long do we see that the strategy is -- was really the right approach for us to take.

MANAGING INVESTMENT DIRECTOR ORLICH: That's an astute observation. We wholeheartedly agree with it. I would say the timeline is approximately 5 to 10 years. And to be clear, CalPERS private equity over long term has outperformed public equity during periods where the CalPERS Private Equity Program did not outperform the opportunity set. As a result, the recent data that shows we're outperforming the private equity universe is a good leading indicator that we're on track to outperform public equity.

COMMITTEE MEMBER ORTEGA: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yeah. And I just reemphasize that, that the benchmark for private equity does include a premium to public markets. So when you see the 10-year figures comparable, that includes an excess return over public markets. And I would say we have lagged in the private peer groups. But Anton's strategy of co-investing and cost efficient implementation gives us a lot of forward comfort that that's the right strategy on a go-forward basis.

Thank you.

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

COMMITTEE MEMBER PACHECO: Thank you, Chairman Miller and thank you, Mr. Orlich, for your presentation. Very enlightening.

My first question is regarding the EDCI, the Data Convergence Initiative. You mentioned that we've grown from approximately seven GPs to more than -- I believe more than 200 GPs and now representing over 26 trillion in asset under management.

With respect to all that, I believe that we also expanded the categories, the categories are now -- there are seven categories of measurement and how robust has that been, how -- have they been providing us the information that we need to get a better understanding of the portfolio companies in that world and just if you can elaborate more on that, that would be great.

MANAGING INVESTMENT DIRECTOR ORLICH: Yes, the focus here has been more on the discussion of increased participation and the increasing amount of the private equity portfolio that has EDCI participants, but you're absolutely right to say that the data collected per manager has improved the categories. Several I would say institutionalizing developments have occurred with EDCI, one of which is BCG, Boston Consulting Group, is playing an important role in collecting and making the data usable for the limited partners and the general partners to understand ESG issues.

We play less of a role in that we play more of a role in trying to interpret the data for our portfolio and trying to increase the managers in our portfolio participating. And over time, sustainable investments will be able to apply this further and then also the Private Equity Program will have more opportunities to incorporate into diligence, because we think it will help us assess risk.

You know, if you go back three years ago, I think to your question, there was less certainty about which of the data providers would win in the space. It's looking more and more like EDCI will at least be part of the small group that wins. And there's a chance that it will be the definitive metric for how to assess ESG issues.

COMMITTEE MEMBER PACHECO: I concur with you with that. I believe that with all the other competing frameworks out there that this will eventually win out. I'm -- what I'm really concerned about is making sure that as we continue to look at -- as we continue to allocate more and more into the private markets, that we have an funding of how -- what's going on inside the portfolio companies and making sure the data is -- has -- it's meaningful for us, because as you mentioned, we're using it to interpret and to help us understand the risks involved, because -- and that's what it is, risks, trying to understand the risks. So I just wanted to make sure that as we -- as we move forward, developing those metrics maybe making them more robust over time and having that clear North Star, so to speak, would be helpful in that respect. So those are my comments.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

COMMITTEE MEMBER PACHECO: I have another question was regarding -- and my computer just went out, and I had it right there and it just -- I apologize. Let me just get it right now. And it's back on page -- on slide number four. And let me -- program review.

You know, I just wanted to ask what are your thoughts on how co-investment program may have helped build our brand equity in the private market space as we build trust over the course of -- over the course of -- with many interactions and transactions with various GPs as we co-invest, you know, over time. So what are your thoughts around this? It's more a philosophical question.

MANAGING INVESTMENT DIRECTOR ORLICH: Yeah. We don't talk about it often, but I think you're highlighting an important rationale for co-investing. There is so much emphasis on the cost savings that the governance and partnership aspects of co-investment really do get, I think, an insufficient amount of attention.

COMMITTEE MEMBER PACHECO: Yes.

MANAGING INVESTMENT DIRECTOR ORLICH: There is a virtuous circle that occurs when a well-functioning co-investment program is in place. It keeps the limited partner at the top of mind for the GP, it makes allocations more easily achieved with oversubscribed managers, and it creates a relationship of trust that can help improve other terms.

So we do think that the amount of co-investment volume we've been able to achieve has strengthened our partnerships and can be leveraged in some peripheral areas. That said, obviously, the biggest benefit is the cost savings.

COMMITTEE MEMBER PACHECO: Of course.

MANAGING INVESTMENT DIRECTOR ORLICH: Another aspect that I don't think gets enough attention is how we have been able to increase the net asset value of the program while keeping in check the unfunded commitments. At a time of a crisis, this will provide the program much more flexibility, since there won't be outstanding commitments to the same degree if one did fund-only investing.

COMMITTEE MEMBER PACHECO: And I would just want to say that is a very important point you pointed out with respect to that. One follow-up question on that is how is that interaction with the GPs in terms of diverse and emerging managers? You mentioned that we've invested more than four billion beside the -- besides the Project Mosaic. Has that been a fruitful relationship? Has -- have we been developing these fruitful relationships with these new emerging and diverse managers and your thoughts on that, sir.

MANAGING INVESTMENT DIRECTOR ORLICH: Yeah. That's a very nuanced question. I appreciate it. What I would say is on average diverse managers tend to be smaller.

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR ORLICH: And we take a lot of pride in trying to build a co-investment program where we add value to our partners. And the ability to add value to our partners is greater when the manager is smaller, because the co-investment provides those managers the opportunity to punch above their weight and participate in transactions they would not have otherwise been able to do.

So there's actually a case that the co-investment itself, while diverse managers and other managers are not receiving fee and carry, there is a case that diverse managers engaging in co-investment with us are maturing their firms more quickly --

COMMITTEE MEMBER PACHECO: Yes.

MANAGING INVESTMENT DIRECTOR ORLICH: -- and as a result are able to help change the landscape.

COMMITTEE MEMBER PACHECO: Again, thank you for that comment. I certainly see that and -- with respect to what we're doing. So thank you. And I do appreciate your comments on this.

Thank you.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

CHAIR MILLER: Okay. Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you. I wanted to turn to page seven and talk a little bit about cash flow, a little bit more there. Can you tell us what the increase in co-investments has done for or to the cash flow, how different is that program from a cash flow perspective to a direct fund investment perspective and are we well situated should there be market tightening or a downturn to be able to meet our unfunded commitment expectations given our current cash -- given the current environment with respect to cash flow in the private equity market.

MANAGING INVESTMENT DIRECTOR ORLICH: Yeah. Thank you for the question. On the first part, the co-investment program increases the cash demand for private equity since the commitments we make go into the ground more quickly. So the 2023 cash flow demand is a reflection of the fact that 2023 is the first scale year for a Private Equity Program. We went from approximately $3 billion of co-investments to about $9 billion of co-investments. And we expect that cash flow negativity to be in place for approximately four years. At that point, there will be an inflection where we can expect that harvesting of prior co-investments will pay for future co-investments.

In terms of your second question, I know this is counterintuitive, but it's precisely because we can move to such a high proportion of co-investment that we'll be better positioned in a crisis, because we don't have these outstanding unfunded commitments to the degree we would have. If we moved to a 17 percent private equity portfolio relying only on funds, the scale -- the scaling process would have created billions of dollars of outstanding obligations, which in a crisis could be called. We're avoiding that with this approach. So we're pretty, you know, constructive on what this approach means for the program flexibility.

That said, all of our decisions, whether they're fund investments, or co-investments are done within the constraint of an extensive illiquidity analysis on what the program can handle and we are well below that ceiling.

ACTING COMMITTEE MEMBER GALLEGOS: Great. And the -- Just to follow up, the reason to your point of it being counterintuitive is because the co-investments are a one-time investment as opposed to a -- an outstanding unfunded commitment over time.

MANAGING INVESTMENT DIRECTOR ORLICH: Exactly.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. And then I just had one more question following up on Ms. Ortega's question about performance. How do we assess whether or not we are investing in the best funds? We can mesh ourselves against our return of the public markets, which is our benchmark, but it can be better to not invest than invest in a bad manager. So how do we know, how can we measure our performance relative to the universe of opportunities?

MANAGING INVESTMENT DIRECTOR ORLICH: That question really does link well to our emphasis on the opportunity set benchmark and why we're putting such emphasis on it.

ACTING COMMITTEE MEMBER GALLEGOS: The Cambridge benchmark that you're referencing.

MANAGING INVESTMENT DIRECTOR ORLICH: Yes. And it could be there are other providers. This is a top three provider. All three would show you the same picture, which is for the first time, the program is outperforming the opportunity set. Now, it's a bit difficult, because it's not an investable benchmark, but it's a great exercise to help us understand whether or not we are selecting the best funds. So you can think about, and, you know, Cambridge University I think has approximately 1,500 funds. You could think about that as, you know, if you were to just throw a dart, how would you perform?

Now, as I said, it's not investable, but overall, in this first year, we're seeing that we've outperformed that benchmark. And that's for the overall portfolio. It's not for the dollars that are put in the ground that one year. So we do, you know, expect that, you know, this is a leading indicator, but that we'll see those numbers continue to improve.

And the capital markets assumptions are based on the long-standing observation that private equity does outperform public equity. And we've been holding ourself to the standard that we're going to outperform public equity over the long term with that modest illiquidity premium of 150 basis points.

What we've done for ourselves is say we want a higher bogey. We want to be able to say five years from now that we've outperformed the private equity universe. And if we can achieve that higher standard, then it should follow that the CalPERS Private Equity Program will outperform public equity.

ACTING COMMITTEE MEMBER GALLEGOS: Great.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And Deborah, I'll just add to that. So we have our TFPM colleagues, Michael Krimm who just presented, also providing oversight of the asset class, and we're looking at both public market equivalents, which is our benchmark as well as a variety of private benchmarks. And the private benchmarks are better for assessing short-term performance and the PME is for longer term performance, so we get a slightly different perspective. And then just on the liquidity question, the co-investment accounts, we have the option, but not the obligation to fund, so that also helps.

Thank you.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you. And I just want to echo President Taylor's comments earlier that not just on the Exxon issue, but on all the issues I think staff is doing a great job and I hope others can see the hard work and the unique approach staff is taking on these benchmarks in private equity and all the other asset classes.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

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

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And we have a quick question and quick comment, but I want to start with the echoing and keep on giving you praise for the great work that you guys and the whole staff has done, so that's -- thank you for all that.

A quick question about staffing and resources. I know I believe we have 43 PIs, 43 approved positions, right? And out of those 43, I believe we have nine opening -- openings currently, so -- which is, I would think, significant. And by the way, I also wanted to point out that last year, you promoted 10 people. So congratulations to all those 10. Good for them. Six people, however, left.

So with that kind of a vacancy rate, the question is with the -- is it sufficient, in your opinion, to execute the current investment strategy?

MANAGING INVESTMENT DIRECTOR ORLICH: We know it is. And you can see that on this year's numbers in terms of dramatically increasing the absolute dollars of co-investment. The vacant positions are a reflection of the other data point that you provided, which is we concentrated our resources during the search processes to have internal promotions, and that has been an absolute boost to morale and it's reflected some, you know, really, what I could consider, long overdue recognitions of spectacular work that the members of this program have delivered for the pensioners.

Over the next several quarters, those vacancies have now moved to what I would describe as more junior positions, the Investment Officer I and II. And those will then be filled with, you know, a stellar middle and senior level set of individuals who are proven deliverers to CalPERS.

ACTING COMMITTEE MEMBER RUFFINO: Well, that's great to hear. Kudos, you know, to you guys for identifying and for doing that.

So the recruitment is in process, I'm assuming -- I mean, obviously, right? Do you anticipate any challenges or --

MANAGING INVESTMENT DIRECTOR ORLICH: Almost all but one of the recruitments are Investment I or II positions. There's only one senior position, which is about to commence final round interviews. That's for creation of a new position. So it wasn't sitting vacant. And, you know, we don't anticipate issues in filling the

Investment Officer positions. CalPERS has a fantastic brand in the market. And there's been a little bit of turnover around maintaining cultural values. And that's a healthy thing. We have very high standards and we expect members of the team to meet those standards and to support the direction -- the strategic direction of the program.

ACTING COMMITTEE MEMBER RUFFINO: Thank you for that. And one quick other comment. On page 13, I think it's -- I'm not sure which slide number it is, but it's the key initiatives. And I just wanted to convey the Treasurer's congratulations to the -- to the team and to CalPERS, you know, for taking on those two key initiatives, particularly, you know, making the first investment to emerging managers, 1.45 billion. You know, that's a great start, and as well as, you know, some of the other initiative that we have undertaken last year in the DE&I, you know, the Catalyst and so on, which I believe we're going to redo -- or we're planning on doing that again. I see the CEO nodding her head. So again, thank you to your team, Anton, and great work.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you. We really appreciate the support.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair.

CHAIR MILLER: Thank you.

Next, we have Director Walker.

Yvonne, are you there?

COMMITTEE MEMBER WALKER: Yes, I am. Sorry. It took me a while to figure out how to get off mute, so I apologize.

CHAIR MILLER: No worries.

COMMITTEE MEMBER WALKER: That's what happens when you're your own IT department.

So thank you. And I appreciate the report and all the work that has gone into it. It is very, very apparent. I do have one question that might be not the right place for this. And if that's the case, please let me know and we can have the conversation later.

But I noticed that recently the Eleventh Circuit, when they ruled on the Fearless Fund, which was a fund that invested in Black women. And so I wonder if we -- and I thought the ruling was disgusting, but I wonder if that is going to have any impact or if we look to see if it has any impact on our emerging managers and how we do diversity, because I would think -- I would want us to be more proactive to make sure that there -- no challenge comes, so that's my question.

MANAGING INVESTMENT DIRECTOR ORLICH: Without getting into the specifics of any legal discussion, what I can say to you with confidence is the managers we are selecting we think are the best managers in the market and they will outperform and they're being selected because of that and there is not any relegation in the quality of the manager to achieve some goal beyond financial return.

COMMITTEE MEMBER WALKER: And I appreciate that. I just will point out that we're living in strange times. And I don't even -- I don't think the Fearless Fund was doing anything more than trying to make sure that people were being successful and they were going to get returns. And so I just want to make sure that we are -- how the -- how we talk about things and how we do things to make sure that we are bullet proof, because I would hate to think that at some point in the future, either by a court ruling or by fear because of the climate, we would do something different.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

CHAIR MILLER: Okay. Next, Director Middleton.

COMMITTEE MEMBER MIDDLETON: Right. Thank you, Mr. Chair. Anton, first, a compliment. When it comes to Labor Principles, I want to thank you and all of your team for the work that's gone into it. And I know how much work has gone in and how much we have been heard in terms of what our concerns have been.

My question and my concern is that we've had any number of individuals come forward who have been themselves the subject of extremely abusive labor practices. And one of the difficulties I'm finding is completing the circle and making sure that those individuals who have come forward to talk about some extremely horrific individual circumstances are able to get some satisfaction that they know that they have been heard and that actions are being taken. So if you could, give a little bit of leverage and it might help some of -- without betraying any confidences that would help some of our individuals to know that in fact we are responding.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you. And we really do appreciate the leadership and the collaboration on Labor Principles. I appreciate the question, and obviously we don't discuss specific investment decisions, but it is possible to address your question in a general way. And, you know, I think the starting point is the stakeholder engagement process. And as you articulated, we've had people come before this forum and share their experiences. And that's courageous, and it's helpful, and it does translate into consideration in our investment process.

We've discussed with you the stakeholder engagement. That is really what feeds into the investment decision. That's run by Sustainable Investments. And then the asset classes with the information that's attained through stakeholder engagement make more informed investment decisions.

Again, without speaking about a specific fund or manager, I can tell you that there have been situations where the stakeholder engagement process has resulted in a reduction in a commitment size from what was prior commitment or what was in the pipeline. In some cases, it's been 60 or 70 percent from that commitment level. In other cases, a fund family was not reupped with based on findings from stakeholder engagement. So there is definitely a translation from what we're learning in those processes to the investment decision.

COMMITTEE MEMBER MIDDLETON: Thank you. And I truly encourage you to continue in that vein.

Lastly, I want to make a comment. Looking back at the last three years for -- at our private equity commitment that has been consistently in the $15 billion range. That's kind of the stability that we've been striving to get for many, many years. And my compliments to you and to everyone involved in creating that kind of stability going forward.

MANAGING INVESTMENT DIRECTOR ORLICH: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And, Lisa, I'll just add. We've seen a lot of positive feedback from the markets. So GPs that we've engaged with, they've hired union reps and established their own Labor Principles. So we'll be hearing about that more with Peter on the Labor Principles later on, but I am pretty confident we're having a positive impact on the market.

COMMITTEE MEMBER MIDDLETON: I think we are as well is communicating that impact, but thank you guys.

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

COMMITTEE MEMBER RUBALCAVA: Thank you, Ms. -- Mr. Chairman. Thank you for the report. Very enlightening. And I appreciate my colleague Lisa Middleton's last question, because I know we were going to discuss it, implementation of Labor Principles earlier, but it's good to know that there are consequences for people not being aligned with our Labor Principles. So I appreciate that information being revealed publicly. And thank you, Ms. Middleton.

One of our Investment Beliefs you -- is cited many times in the report, is that costs matter and we need to -- and they have to be effectively managed. And so I was very happy to see that in the integration and commercial sustainability slide, slide 13, on the screen, but slide 12 on mine. Oh, actually there's another slide. Never mind. It's another slide. But we talk about there's been an increase in co-investment. And that's good because there's -- we don't have the management fees or the carryover fees.

And at the same time -- so that's a good thing. Then on this slide, where we're talking about is we -- I want to -- I'm pleased to see that incorporation of Labor Principles. So my question would be to -- and we're aligned on the governance and proxy voting -- I'm confusing my notes here. But any issues that come forward either to the stakeholder engagement process or as used to integrate the governance and sustainability principles, please do bring them forward, and we look forward to the forward report.

So thank you for the report.

MANAGING INVESTMENT DIRECTOR ORLICH: We will. Thank you.

CHAIR MILLER: Okay. And let's see, I thought I had Director Ortega. Did I inadvertently cancel you?

COMMITTEE MEMBER ORTEGA: No.

CHAIR MILLER: Okay. So no more questions from the Board. You know, we've gone almost two hours, but I have two public comments on this particular item and then I've got a whole lot of other public comments to get through. So I think we'll take the two public comments on this item and then we'll take a brief break, and then we'll come back. While I explain the process for queuing up all our public comments and then we'll have a couple more items, and then we'll have some public comments after those as well.

So, at this time, I'll call up for Item 5b J.J. Jelincic and Mark Swabey. And if you'll come down, we'll have seats over here on the left for you. Some of you know the drill. You'll have three minutes for your comments. And you'll see a timer will appear here. It will start when you introduce yourself and begin speaking.

J.J. JELINCIC: Was Mark coming up?

Okay. J.J. Jelincic, beneficiary. I want to point to a few items. On slide three of the presentation, returns are driven by appreciation and sometime leverage, negligible cash flows. Sometimes leverage? You're talking about private equity. Leverage is a key component to private equity. It is a key feature. I'm not sure you could identify a PE without some leverage.

Take risk only where we have a strong belief that we will be rewarded. Investment Belief 7. You seem to be ignoring virtually all the academic work that says that so much money has poured into PE that it does not pay above the public market, even if you don't risk adjust it and it gets worse when you do try to risk adjust it.

Now, I will acknowledge the industry says that it has high returns, although you notice they don't say high risk-adjusted returns. But -- you know, so they will ignore the academic work. But it reminds me of the Sinclair Lewis quote, "It's very difficult to get somebody to believe something when their paycheck depends on not believing it."

On slide six, you point out that it's a U.S. centric portfolio. And yet, the benchmark that you've chosen to use is 40 percent international, when international has underperformed the U.S. for 50 years. When I asked about it at the briefing, I was told that despite the fact the staff recommended it, the Board adopted it, it was Meketa's fault.

You talk about performance and risk on slides 9 through 11, the risk that gets pointed out is really volatility, which kind of depends on the general partner's mood swings, since they smooth out the performance. And I assume you all saw the Wall Street Journal article that talked about the massive difference between market value, where things actually trade and the GP's portfolio. And I will point out that at least two of those are funds that we are specifically in.

And on slide 11, there's a series of assumptions, 1.25 percent fees, 20 percent carry. I don't know if that reflects reality for CalPERS. You would know better than

I do, but I would point out the carry of 2.5. Only 21 of the 356 PE funds we're in have met that. Only four of them are from '17 to '19, and the rest are all pre-2015. So I'm not sure that that's really a good assumption to be making. So I would ask that you consider that.

I will put in one plug for venture capital and growth. I think that's an area that has some merit. And I also helps grow the economy, which is good for the fact that we've got a whole portfolio reflective of the economy. Thank you.

CHAIR MILLER: Thank you.

J.J. JELINCIC: And thanks for letting me go a little over.

CHAIR MILLER: Mr. Swabey.

MARK SWABEY: Yes.

CHAIR MILLER: And then Mr. Ruiz will follow.

And who are you?

FRANK RUIZ: Pardon?

CHAIR MILLER: Introduce yourself, please.

FRANK RUIZ: Yes. My name is Frank Ruiz. I'm a CalPERS retiree. And I want to thank you for allowing me to have a few minutes to make a presentation. And I want to address my remarks regarding the Board's decision on March 2024 to increase private equity investment from 13 to 17 percent, also the presentation made today.

After having reviewed the annual reports, I want to present information that may prove useful to investment strategy for 2024 and beyond. The last reports for fiscal year 22-23 provided by CalPERS to the Board and its members are like looking at the front half of a horse through the left eye and the back half through the right eye. The private equity report is the back half running in the opposite direction.

The issue is that a summary page that should connect all parts of the report is missing. We are not seeing the whole horse. It appears that the front half is moving to profits and a revenue stream. The back half is running in the opposite direction to negative or nearly negative returns. My observations will hopefully allow the Board to consider a new paradigm for future greater financial returns. Both horse halves need to be connected and moving in the same direction towards profitability.

The premise and promise of private equity are outsized returns, outsized returns. To date, private equity has fallen short on that promise. Past history and current strategies will have difficulty delivering on that promise. Further, current private equity investments are tying up billions of dollars for years. Also, these billions of dollars must pay administrative and managerial consultant fees and any other costs like contract exit fees before any returns are forthcoming.

Since benchmarks for contract exit time frames are not spelled out, these costs continue for years with negative or minimal returns. CalPERS needs to consider one or more of the following: a pause in investments to evaluate past private equity investment and returns; divestment of non-producing or minimal producing revenue investments that are past their seven to eight year life cycles; evaluate the impact of greater amounts of initial investment; finally, reduce number of 300 plus current private equity investments and redirect funds to smaller number of companies, but larger amounts of initial investments. That is what the top 50 private equity companies do, not little tiny investments.

CalPERS may consider investing in annual revenue generating public bonds, treasuries, profit-making companies, public equity, or other funds that increase CalPERS' profits. These kinds of investments will put CalPERS in place to achieve its benchmarks today and meet its pension needs tomorrow.

Thank you for your attention.

CHAIR MILLER: Thank you, sir.

Next, is Mr. Swabey.

MARK SWABEY: Yes. Mark Swabey. Thank you for allowing me, Mark Swabey, to comment on the Private Equity

Program. I'm a retiree receiving a pension after 32 years of State service. The premise and purpose of private equity is the provision of outsized profits to its investors at close of contracts beyond the measure of any public equity index used as a benchmark. A better measure would be the ratio of increase to original investment, the principal.

A hypothetical investment of $5 billion over eight years at a ratio of 1.2 of increase above the principle would be -- would gain a 120 percent increase at contract closeout after eight years and it could mean a return of $6 billion to the investor on a five billion principle. The same investment, five billion, using the same criteria would return seven and a half billion at 150 percent of the principal.

CalPERS itself intends to invest a $70 billion principal in private equity investments during 2024-2025, the fiscal year, an increase of 157 percent after an average eight-year contract period for all contracts would return $110 billion to CalPERS after all the contracts were closed. In contrast, a 120 percent increase, after matching the above conditions, would return only 84 billion to CalPERS perhaps matching or lagging its chosen public equity index.

I would ask CalPERS to invest its private equity capital wisely and profitably showing its outsized profits in future reports. Thank you for your time and for allowing me to address you.

CHAIR MILLER: Thank you. That concludes the public comments I believe on that.

Were there any phone callers on 5b?

BOARD CLERK ANDERSON: I don't think so.

CHAIR MILLER: No.

Okay. At this point, we're going to take a break. Should we do a 10 or 15 minutes?

VICE CHAIR TAYLOR: We should probably do a 15.

CHAIR MILLER: Fifteen, yeah. So we'll do a 15-minute break and then we'll return and we'll queue up another batch of public commenters.

Thank you. We're in recess.

(Off record: 10:30 a.m.)

(Thereupon a recess was taken).

(On record: 10:46 a.m.)

CHAIR MILLER: Okay. Let's reconvene here.

Okay. I'm going to call this meeting back to order.

VICE CHAIR TAYLOR: Slam that hammer.

(Gavel bangs).

CHAIR MILLER: Oh that -- I guess it works.

VICE CHAIR TAYLOR: Oh, yeah.

CHAIR MILLER: Okay. I hope everybody will get back in and get back to your seats. All right. We're back in session. And I just want to thank everybody for your patience. Sorry, I didn't get to all these public comments earlier with Item 5a. Apologize for that and appreciate your patience.

So I'm going to start off I'll be calling up a few people at a time. And I'll start with it looks like Jovana Fajardo, Kristin Lopez, and Terry Brennand will be our first three. Just come on up and we've got the seats over here on my left, your right. And when you introduce yourself, the time will start, and you'll have three minutes to speak, and -- is that everybody?

You may begin.

JOVANA FAJARDO: Okay. So Good morning, CalPERS trustees. My name is Jovana Fajardo and I am here on behalf of ACCE, Alliance of Californians for Community Empowerment. You know, you've heard the many lawsuits filed against the company called RealPage. The issue involves illegal price fixing by property managers and the landlords. Blackstone's hand picked property management company has been named in these lawsuits in several states, Texas, Tennessee, Arizona, Washington, Massachusetts, Colorado, and the U.S. Justice Department.

Landlords and property managers are being accused of using this special software called RealPage that tells property managers and landlords how to rent their -- how much rent their competitors are charging tenants, how much to increase rent across communities, and how many units to leave vacant so they can maximize their profits. So in short, this lawsuit claims that the software is being used to stop competition between landlords to illegally drive up rent, which we've been seeing over the years.

These allegations, which are well-founded, have directly contributed to California's affordable housing crisis, which we've all been seeing either firsthand or secondhand throughout the communities. CalPERS is a major investor in both RealPage and Blackstone. This is not the first time we've come here to lift up this concern, which means CalPERS is uniquely positioned to address this situation.

On behalf of ACCE and our 18,000 members, many who face a real threat of becoming unhoused, many that have already, because of the rising house crisis, as a major investor, we ask that CalPERS ask Blackstone to report to you its usage of RealPage in California and what the rent increases and vacancy rates have been at these properties over the past three years.

Thank you.

CHAIR MILLER: Thank you.

KRISTIN LOPEZ: Okay. Hello. Is it my turn?

CHAIR MILLER: There it is.

KRISTIN LOPEZ: Yes, it is. Okay. My name is Kristin Lopez. I live here in Sacramento. I'm a proud member of ACCE Action, which stands for the Alliance of Californians for Community Empowerment. Today, we're here at the CalPERS Board meeting talking about corporate accountability.

Just like Exxon, Blackstone's actions hurt Californians and expose the fund to serious liability. The issues we've heard about today are connected by the theme of irresponsible corporate behavior. In both cases, we are talking about the actions of corporate bad actors that are harming our communities. In both cases, we are asking CalPERS to take the appropriate steps to engage with these corporate -- corporations about their troubling actions.

In both cases, we are asking CalPERS to escalate and to make a decision about exiting Blackstone and ExxonMobil based on their fiduciary obligations.

Thank you for your time.

CHAIR MILLER: Thank you.

TERRY BRENNAND: Mr. Chairman -- there we are. Mr. Chairman, members, Terry Brennand on behalf of SEIU California. I'd like to echo some of the comments earlier about thanking the staff on their fine work during the -- you know, season just passing during the shareholder meetings. Incredible work around some really serious problems. Appreciate the effort to vote down or vote against Exxon's board, but the question becomes what next?

If this Board and CalPERS want to be taken seriously in the conversations about engagement versus divestment, in the conversations about a real effective long-term policy toward climate change and carbon neutrality, it's time to walk the walk and not just talk the talk. How do we have a toxic partner like Exxon that sues the shareholders for voicing an opinion about climate change? I don't know how you can be taken seriously in any conversation in the legislature or the financial world if you don't put some backbone into this.

We're asking that you look toward at least a moratorium on any new purchases of any Exxon and then direct staff to develop a policy to not exit an entire asset class, but to actually penalize the bad actors, so that you can justify rewarding the good ones, somebody with a transition plan, somebody with a commitment from going from oil and gas to something more renewable. That is not Exxon.

Also, coming up is the vote on the Elon Musk and Tesla shares. There can be nothing more offensive to workers in California and elsewhere than a $56 billion buyout. This is money that should have been shared with workers up and down the line and it's not. I hope we're directing staff to vote against any of that with our shares in Tesla.

So appreciate your time and thank you very much.

CHAIR MILLER: Thanks for your comments.

Next, we have Elrika Aritonang, Natisha Booker, and Jakob Evans. If you'd come on down.

Great. And welcome.

ELRIKA ARITONANG: Good morning. My name is Elrika Aritonang, UC Davis employee. I'm an Executive Board member for AFSCME 3299 and live here in Sacramento.

We know that trustee and CalPERS staff understand the threat we all face because of climate change. Everyone in this room understand that if we continue business as usual without serious consideration of looming climate cause financial risk. The fund's health will be undermined and its strength and predictability weakened.

An unprecedented coalition of union representing many (inaudible) workers invested in CalPERS and leading environmental groups in California is speaking out. My union is part of this coalition that is called California Common Good. Like you, we take the health of our pension fund seriously. Corporation that continue to cause climate change and those that block solutions to climate change must be held to account.

That's why we are here today, why we were here in March, and why more and more organizations are joining us. We are asking you to exit companies that violate CalPERS Principles and not to make any new investments in oil and gas companies. This start with fossil fuel companies. They have demonstrate they are not interested or open to engagement. Thank you.

CHAIR MILLER: Thank you.

NATISHA BOOKER: Hi. My name -- can you hear me?

CHAIR MILLER: Oh, microphone. There you go. It's on now.

NATISHA BOOKER: Testing. Oh, sorry. Thank you.

Hi. My name is Natisha Booker and I live here in Sacramento. I work at UC Davis. I am a proud member of AFSCME 3299 and I am on the Executive Board.

We commend you for speaking out forcefully against ExxomMobil and its a lawsuit seeking to silence shareholders. We agree with you that Exxon actions is reckless and would have devastating effects if it were to go through. Unions have fought hard to win and maintain retirement security for members. And you, as the Board of Directors are the stewards of our collective investment.

Your vote against all 12 of the Exxon board of directors sent a very powerful signal to Exxon and other companies seeking power through intimidation. As a public employer, I am proud of your leadership and how serious you have taken your fiduciary responsibilities.

Thank you.

CHAIR MILLER: Thank you.

JAKOB EVANS: Hello. Good morning, Board members. Thank you very much for the opportunity to comment today. My name is Jakob Evans. I'm a policy strategies with Sierra Club California. I want to thank you for your leadership in standing against Exxon by voting against its executive slate at its May shareholder meeting.

Exxon's actions to silence its shareholders have shown that it is committed to a business model that is harming the environment in communities on the front lines of climate change. Your commitment to shareholder rights is vital to ensure Exxon is held accountable for its lawsuit against its shareholders. Exxon's actions have potential impacts on all shareholders holding investments in corporations that evade their responsibility for acting on the climate crisis.

Today, we ask that CalPERS take further action by refusing to purchase new bonds from Exxon. Sierra Club California agrees with California Common Good that CalPERS should exit Exxon. Exxon's continued legal actions against shareholder rights and its negligence in the face of climate change pose a greater threat to California's public employees' retirement plans and to future generations of Californian's ability to access and enjoy the state's natural beauty free from the harm's oil and gas pollution.

Sierra Club California also strongly encourages CalPERS to reject further investments in all fossil fuel corporations. Climate change is a systemic risk to our planet and our economy. Directing further buying in Exxon and other fossil fuel corporations will mitigate the risk that these corporations present via their actions and business models that fuel the climate crisis.

Pursuing further investments in high risk oil and gas corporations is contradictory to the interests of all fund participants, particularly future beneficiaries who will experience the progressively intense effects of climate change.

CalPERS is committed to its Sustainable Investments 2030 Strategy. Yet, investments in Exxon are in direct opposition to its goals and principles. CalPERS is dedicated to engaging and support fellow companies on their net zero carbon emission plans and to developing processes to exit those without credible net zero plans.

Exxon's net zero plan has been criticized by climate scientists due to its failure to include Scope 3 emissions. CalPERS must remain it's fiduciary -- maintain its fiduciary responsibility by denying further investments in Exxon and other oil and gas companies that do not have credible net zero plans.

We understand that the Board will be discussing the Sustainable Investments 2030 Strategy in more detail in an upcoming summer Board meeting, and we look forward to learning more about its concrete details.

Thank you.

CHAIR MILLER: Thank you.

Okay. Now, I believe that's all the comments for in person, so I think we have several on the line, so...

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Jessye Waxman with Sierra Club to speak to Item 5a.

CHAIR MILLER: Go ahead.

STAFF SERVICES MANAGER I FORRER: Go ahead, Jessye.

JESSYE WAXMAN: Thank you. Members of the CalPERS Board, thank you for the opportunity to speak today. My name is Jessye Waxman. I'm a Senior Campaign Strategies working on sustainable finance at the Sierra Club an organization representing approximately three million members and supporters including 500,000 Californians, many of who are CalPERS beneficiaries or otherwise saving for retirement.

I personally want to thank you for your leadership in taking a stand against the Board of Exxon for its egregious backlash against shareholders exercising their rights. And I'm here to urge you to continue that leadership and take further steps with Exxon and other fossil fuel companies as outlined in CalPERS Sustainable Investments 2030 Strategy.

Exxon has deservedly received a lot of attention this year for its efforts to undermine shareholder rights. But from a climate risk perspective, they are not so different from most other fossil fuel companies. No coal mining companies are aligned with the IEA net zero pathways and oil and gas companies made little progress towards one and a half degree alignment, even backtracking on commitments in some cases.

Consequently, climate risk continues to grow for the portfolios your responsible for stewarding. It's impossible for CalPERS to meet the (inaudible) targets and responsibly manage beneficiaries retirement plans, while continuing business as usual engagement with fossil fuel producers, especially companies like Exxon that refuse to change course and attack investors that are expected to do so.

CalPERS Sustainable Investments 2030 Strategy mentioned it would establish corporate accountability for decarbonizing, including developing a process to exit certain securities. It's time the Board begins to execute on that strategy.

Fossil fuel companies are increasingly relying on bond financing to fund existing operations and new expansion, which increases greenhouse gas emissions, contributes to carbon lock in, and increases climate related financial risks, especially for long-term retirement portfolios.

CalPERS has invested over 200 million in Exxon corporate bonds, the vast majority of which will not mature until 2024 -- sorry, 2029 and 2050, the same year CalPERS has committed to achieving net zero emissions.

Simply put, CalPERS must look at a strategy of denying debt to fossil fuel companies as part of its climate pledge and as part of its fiduciary mandates. Exxon must be first among them. We look forward to hearing the details of your strategy this summer and supporting CalPERS continued growth in the coming year.

Thank you for your time

CHAIR MILLER: Thank you.

Do we have another caller?

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We next have Jason Disterhoft from Majority Action for Item 5a.

CHAIR MILLER: Good --

JASON OPEÑA DISTERHOFT: Thanks very much. My name is Jason Opeña Disterhoft with Majority Action advocacy group focusing on risks to shareholder value, especially climate change, and racial inequity, and proxy voting tools to mitigate those risks. I wanted to take a moment to add our thanks to trustees and staff for the first class leadership CalPERS has shown this proxy season defending against ExxonMobil default on corporate governance institutions that are vital to securing shareholder values.

CalPERS (inaudible) calling for votes against the full Exxon board was vital. Also crucial has been the fund's sharp and sustained presence in the media taking a strong and consistent stand for the interests of CalPERS beneficiaries. We also appreciated trustees in an individual capacity joining the letter to the largest asset manager calling on them to hold Exxon's board leadership accountable.

While Exxon's lawsuit threatens investor's rights in general, it also aims to shut down action on climate change in particular. The lawsuit is only the most recent escalation in Exxon's decades long effort to deny, disinform, and delay action on the energy transition. The company wants to continue extracting oil and gas indefinitely and wrecking the corporate governance ecosystem is just collateral damage. CalPERS always had a uniquely important role to play in responding to Exxon's threats in showing that, as CEO Frost and President Taylor wrote, CalPERS and its fellow shareholders will not be silent. This season, the fund has shown leadership that lives up to the best traditions of CalPERS work for responsible and sustainable vesting.

Many other investors joined CalPERS in voting the right way. Governance chair Joseph Hooley got just 87 percent support, which a year ago would have placed him in the fourth percentile of S&P 500 oil and gas directors. But preliminary results suggest that most of the biggest assets managers, some of whom CalPERS is a client of, took Exxon's side and voted for the full Board, effectively endorsing Exxon's lawsuit. This was a which side are you on moment for the biggest asset manager.

In the coming months, we'll know which ones endorsed Exxon's attack on corporate governance. Going forward, we encourage CalPERS to strengthen its policies and practices for ensuring that its managers are acting in alignment with fundamental CalPERS principles and its beneficiaries' best interests. Thank you again for your leadership in recent months and we look forward to CalPERS continuing to lead on these vital issues going forward.

CHAIR MILLER: Thank you.

Do we have another caller?

STAFF SERVICES MANAGER I FORRER: No more callers for 5b.

CHAIR MILLER: Okay. Thank you.

Okay. I think that does it for 5a and 5b. And so we'll move on to 5c, private debt annual program review.

CHIEF EXECUTIVE OFFICER FROST: I invite Jean Hsu to the table. And as with private equity, this agenda item provides a program review update including the market environment, the portfolio performance and risk analysis, and then some key initiatives. And just as side note, since this is a full private asset view, if the Board has questions or the Committee has questions on our liquidity management program and practices, Arnie Phillips is able to come to the table to speak more directly about that.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR HSU: Jean Hsu here. Good morning, everybody. I'm so grateful that I had the opportunity to serve CalPERS and our retirees for the past 25 years. CalPERS has provided a platform for me to learn and grow in many different areas. I am lucky that it is very hard to say goodbye, but in part I'm very comfortable because the private debt team is outstanding and ready to take the program forward.

So with respect to our portfolio side, we have committed 33 billion to date and then there are additional 18 billion coming in the next six to 12 months.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: This rounds out our portfolio construction, which I will explain in detail this afternoon in our closed session. I'd like to take a moment to briefly introduce senior staff in our private debt team. Jonathan Chen. Jonathan Chen. Okay. Jonathan has been with the team for seven years. Prior to joining CalPERS, Jonathan was the Executive Director in Morgan Stanley and then was the most senior structurer CLO desk. He trained all their structurers on Morgan Stanley and he was also the structurer for the very first deal of residential mortgage securitization in Europe after the Great Financial Crisis. We are very lucky to have this type of talent in CalPERS team.

Racel Sy who is traveling today. She has 22 years in direct investment experience here in CalPERS and he is -- she is our CalPERS in-house guru for commercial real estate backed securities, as well as asset backed securities. She has under returned $15 billion of private debt funds investment and then has executed more than a hundred co-investment opportunities. Yes, more than a hundred.

And Ryan Ong here. Ryan. Okay. So Ryan has been in CalPERS for 12 years and he not only underwrites, but also leads a team of Investment Officers who dabble as software engineers to build our own database and proprietary analytical system, which powers private debt's data-driven strategy. I want to let the Board know that, you know, this seasoned team has worked together for seven years and our expertise covers both public market and private markets with special expertise in structuring and negotiation.

And then during COVID and beyond, we simultaneously expanded our breadth as well as extended our depth by working after hours and getting invaluable experience which we use to create true innovation solution. And we know, you know, in the private debt, the co-investment opportunity usually comes with a very tight timeline and it often requires working through the weekend. So the thoroughness of our underwriting process and our nimbleness and adaptability to demanding co-investment timelines has won CalPERS many co-investment deals and also earned respect from the GP. So it is this team effort that the GP pays respect to us.

The private debt team may be very small in size, but it is so strong in culture, partnership, and work ethics, which has and then will continue to drive the success for CalPERS. With that, I would like to start our formal program review page three.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: Okay. So the role of the private debt is to seek and harvest premiums from the illiquidity natural and in the structural complexity for private loans while generating current income at the same time.

The key metrics here is, as I said, 33 billion in commitments, 13 billion in NAV, and then unfunded commitments right around 21 billion as of March 20 -- March '24. NAV for direct lending stands at around 10 billion, specialty lending at two billion, and real estate financing at around one billion. Commitment to North America is 47 percent, Europe 16 percent, and global 30 percent as of March '24. Okay.

Investment Belief, long term horizon -- long investment horizon. We will only take risk when there is strong belief that it will be rewarded for it, and then cost matters.

Okay. Next page.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: Here, we can see the commitment has been consistent over the vintage years. And then on the right-hand side is the deployment. The 2023 deployment looks a little bit low. That's because 2023 was a very difficult year for GP to raise fund. So a lot of the funds started in 2023, they actually have not closed yet. So for funds not closing, they have investment in the fund, but they will not call our capital. So we already have visibilities for quite a lot of capital call in the coming months.

Okay. Next page.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: Here it shows, you know, given the current commitment, 82 percent is in direct lending, nine percent in real estate financing, and another nine percent in specialty lending. And then on the right-hand side is the geographic diversification. If we just look at, you know, roughly how much is in North America, how much is in Europe, it's roughly a 70/30 split.

Next page.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: Okay. So the left-hand side just shows that, yes, we are building up the portfolio. So there is a lot of capital calls until we reach either the 25 percent or the 40 -- the 25 billion or the 40 billion deployment. So we will call a lot of capital. However, since 2021, the private debt has already received 1.4 billion of income distribution. I think this is very, very significant. We have 12, 13 billion in deployment, but already had 1.4 billion income.

On the right-hand side, this is an example of one of our direct lending funds. You can see, you know, the Q4 '23. This -- you can look at this as almost like a cash-on-cash returns. Like $100 out, you get $16 back on a yearly basis. So this is -- I think is a very, very good return for CalPERS at this moment.

Next page.

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MANAGING INVESTMENT DIRECTOR HSU: I want to talk a little bit about the market environment. First, we talk about what was our -- what's our observation for the prior year. Okay. So interest rates remains very high. The highest rate in corporate due to lack of competition in public markets. And then better quality company tapped the direct lending market for financing. So that was what happened in the past year.

Currently, we do have some concerns. Okay. Low -- like low U.S. market -- U.S. private equity M&A

volume may slow down deployment in the direct lending side. The second one is the competition from public loan market in the large company space will likely compress spread for direct lending. But the spread has been compressed for every single sector, like the investment grade. BBB is at 112 basis points for spread. You know, high yield is right around like 300-ish and then loan is right around 400. And then the private debt direct lending side, you can still get like 475 to 525. So as much as the spread has compressed, it is moving intending with everything in the market.

Okay. Low transaction volume in the real estate state may dampen some deployment in real estate financing. Okay. And then the very last one, higher for longer interest rate may cause stress on the borrowers but before they default. It is very good for investors like us, because we enjoy the higher coupon. So make sure that we invested in the right company, have the right credit solution, and then -- have the right credit selection and then have managers who is able to have a strong workout team. That will be the key. And then that is the very, very important part for our due diligence. Okay.

So investment themes going forward is diversity -- you know, diversifying exposure to different areas, especially, you know, some areas is due to like bank lending retrenchment. So as you can see that we have a lot of our portfolio is in the direct lending -- corporate direct lending. And then on the specialty lending side, we have asset based financing, which is a part of the specialty lending. This is an area that will offer a very scalable opportunity in the -- in private debt. And then we will talk specifically on this one in our closed session about how our view is and then how are we going to do about that.

Okay. And then diversifying geographically exploring different opportunities in North America in areas that there may be laying over more premiums or less bank or less competition. Okay.

And then we will continue to negotiate no fee, no carry co-investment funds that will invest alongside our main funds. And then we will continue to commit in large size to key high quality managers who can deploy in scale. I think this is super important for our strategy. High quality managers can deploy in scale. Okay. And then at the end, we want to emphasize on current income distribution.

Okay. Next page.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: Some key initiatives. Okay. So first of all, the key team continue to grow and recruit Investment staff. I feel like last year, that a good portion of our time and our team's time is spending on recruiting, talking to, you know, recruiters, talking to prospective candidates, and then trying to sway people -- good quality people to join us. So we hired three Investment Officers, IO I, IO II, IO III, okay. And then we hire one Investment Manager, so who came from Europe who just joined us and then will handle our CLO effort. And then we have one more IM coming. It's in background check right now. Okay. And then we are -- we have an ID which will be in place in -- hopefully, in the next months.

The next one is, you know, more efficient credit underwriting process. We are going to continue to develop and using our in-house underwriter Investment Officer that led by Ryan, who is also our engineers to help us to streamline this and then be more efficient. Number three, that we want to continue to deploy co-investments. And then number four, that will be build up even more sophisticated portfolio monitoring capabilities as we have more and more assets under our ring.

Next page.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: So this is the performance. Performance has been pretty good. Since inception, we have 9.5 percent return. And then this year, one year, we have 14.8 percent return, debt giving a 14.8 return. This is phenomenal, but do not expect this throughout the whole cycle of the business. Okay.

Last page.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR HSU: The key initiative, the integration of the governance and sustainability. We are not equity holders, so we have very little influence on the company, but we do our best to give incentives to our managers for them to lend money to the companies, which is willing to comply with sustainability. And then we will also talk a little bit more. You know, the asset based financing, where there are opportunity to do a lot of the sustainable financing like the solar panel in our rooftop or, you know, like -- more like a commercial -- type of commercial solar in commercial real estate. Those are all very good and then it's going to contribute to pillars sustainable and then like carbon -- 100 billion carbon deductions. And then we will capture that and report back to the Board.

Okay. So with that, I want to see if there's any questions.

CHAIR MILLER: Okay. And before I get to questions, I must say just congratulations toward your retirement, and --

MANAGING INVESTMENT DIRECTOR HSU: Thank you.

CHAIR MILLER: -- thank you from myself, my colleagues, and all of us in the system, because your service, your dedication, your leadership, and just the performance of you and your team is really something that we ought to all be proud of and grateful for. So best wishes going forward. And I'm sure we'll see you around a little bit for a while.

So -- and with that, on to Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Chairman Miller. And first of all, I also want to express my thanks, Jean. Thank you for your service. Looking your -- definitely you should -- your retirement is going to be good, I hope. Everything going to be good. And really do appreciate all you've done, especially in your team growing it from inception. You know, I think I believe it started out in the Opportunistic Strategy.

MANAGING INVESTMENT DIRECTOR HSU: Yes.

COMMITTEE MEMBER PACHECO: And it was an outgrowth of that and then it became its own -- its own entity. So very thank you for doing it. And also thanking you last year when you beached -- you beat the benchmark. First year. I was like, it's almost like winning a home run. It was great. It was great.

MANAGING INVESTMENT DIRECTOR HSU: Thank you.

COMMITTEE MEMBER PACHECO: So my first question is more on the performance -- portfolio performance on page 9 of 10. You mentioned that most of the underlying loans are in the floating rates. You know, given the economic climate that we discussed earlier with rising -- with the interest rates right now. If, you know, there was a change in the economy or a change in -- with respect to all the uncertainty with geopolitical issues, how would that affect this particular asset class moving forward?

MANAGING INVESTMENT DIRECTOR HSU: Okay. So there are different fronts that we can attack those issues. Number one is, yes, it is fully in rate. So you're very right. So if the base rate goes lower, you know, your coupon returns will go lower.

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR HSU: Okay. However, in the portfolios, there -- we have like up and down the capital structure. If you can remember like during the COVID time, we have quite a lot, which is more like the capital solution.

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR HSU: And then going forward, we may still looking into that as one part of our portfolio construction. In the capital solution, there is -- a lot of them is actually fixed rate, because you're offering a company let's say, you know, 12 percent fixed rate. And then fixed rate, it has it's like a mishmash versus our benchmark, which is the long and which is fully in rate. However, those fixed rate we usually negotiate that with some penny warrant of -- or some other options. So you can wait out the cycle. And then right now, it looks low versus the folding rate.

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR HSU: But someday in the future when those penny warrants kick in, there is a little bit of the upside for us. So that will mitigate this like, you know, fixed rate versus the folding rate.

Another angle of looking at it is, okay, now is like very high. How are we going to, you know, remain higher for longer.

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR HSU: Is it possible that if they started to going down, do you want to lock in the duration? Okay. So in this area, there's also two ways of looking at this. If you want to lock in the duration, you don't necessarily have to do it right here. You can do it cheaply in the swap market and it can be done at the total fund level in conjunction with like how this total fund wants to have the duration. Are you betting on interest rate, are you betting on that when the rate goes lower that you will profit from the appreciation of the -- of the fixed coupon?

COMMITTEE MEMBER PACHECO: Correct.

MANAGING INVESTMENT DIRECTOR HSU: Okay. So that's one. And you -- it can be done -- the point is that it can be done cheaply using the total rate return swap.

Okay. The second part -- second angle is that some of the asset backed space the financing side, of which we think can be overscalable opportunities. A lot of them are fixed rate. So it is kind of like internally in the portfolio, there will be some hedge against the interest rate.

COMMITTEE MEMBER PACHECO: Right. And that -- and that's -- and that's what I -- yeah, I believe, from what I'm understanding, is there is -- there will be some hedging involved, because you have to balance the -- you have to balance the competing issues. And I also noticed that the geographical area when you -- how you balanced it around the global, United States, and Europe, is also very interesting, because it has -- it gives us that global perspective.

MANAGING INVESTMENT DIRECTOR HSU: Yes.

COMMITTEE MEMBER PACHECO: The next question I have is more around personnel issues. You know, with your retirement, as the Managing Investment Director, what is the anticipated timeline for the recruiting for a successor in your department.

MANAGING INVESTMENT DIRECTOR HSU: Marcie has --

COMMITTEE MEMBER PACHECO: Yeah, I'll ask you.

CHIEF EXECUTIVE OFFICER FROST: I should probably take that one.

(Laughter).

COMMITTEE MEMBER PACHECO: Yeah, that would be great.

CHIEF EXECUTIVE OFFICER FROST: I wouldn't put it on Jean.

So we will begin recruitment immediately. Although, this is a -- you know, a fairly newer position when the Board created the asset class and so Jean has been the only incumbent in that position. So we'll take a little bit of time, review the position description, see if any updates need to be made. Like Stephen's, you know, involvement in as well.

COMMITTEE MEMBER PACHECO: Wonderful.

CHIEF EXECUTIVE OFFICER FROST: And then we'll begin recruitment. It is a very competitive space, private debt, something I think Jean has certainly found that to be true, as she's been filling positions on her team. It takes a little bit longer to find the right talent and compensation has been a bit of a challenge in this space as well. So we'll do a compensation review on it. Let Stephen have an opportunity to weigh in and then we'll begin recruitment. So I would say hopefully by the end of the year we would have someone in.

COMMITTEE MEMBER PACHECO: Thank you for that comment. I would concur as well based on the various things I've read and some conferences I've gone to, the competition, the talent war in this particular space is out there. And, yes, taking the time, and energy, and making sure we make the right decision on the right person is key. Thank you.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And I would just concur we do have a very strong private debt team. And a good selection of MIDs across the alternative space, including Anton on the co-investment strategy, and Sarah who presents next. And I've got 20 years of experience in private debt. So Jean is a big loss to us all, but I think we're going to be fine in the interim and we'll make sure we get the right person longer term.

COMMITTEE MEMBER PACHECO: Thank you, Mr. Booth. I appreciate your comments as well. Thank you.

CHAIR MILLER: Okay. President Taylor.

VICE CHAIR TAYLOR: Yes. Thank you. Am I on? I am on. Okay. Jean, thank you very much for your presentation. It's our last presentation. I'm sad. You've done great. Both last year and this year, you've outperformed. Your team has outperformed and we're very happy with that. I had a couple of questions on -- hold on. It was slide 10, I think, right? Whoops. I'm in the Wilshire thing. Sorry about that.

Okay. Slide 10, climate market mapping, external manager ESG engagement, and data pipeline. So everything kind of says ongoing. Can you explain what exactly -- kind of give us a -- what does ongoing mean for your routine?

MANAGING INVESTMENT DIRECTOR HSU: Okay. Yes. So ongoing means look at, number one, first of all, we have a very talented staff. His name is James Chang. I don't know if he's here. James. Okay. James Chang.

VICE CHAIR TAYLOR: There he is.

MANAGING INVESTMENT DIRECTOR HSU: Okay. James used to work in Sustainable group, okay?

VICE CHAIR TAYLOR: Okay. Good.

MANAGING INVESTMENT DIRECTOR HSU: So he has -- he's got the master mind of everything here. What we mean this is ongoing is that private debt itself it's a very new area itself. And it is moving very, very quickly. And then we see a lot of people they try to use sustainable fund, green fund, to be politically correct, that they can charge a higher fee. Okay. The more money I gave to this type of fund, the less money that I can get it through the co-investment, which is off my regular fund --

VICE CHAIR TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR HSU: -- which is like fee free and zero fee.

VICE CHAIR TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR HSU: So we saw this, like real examples of this of the cap. Like one of them is like the carbon capturing at the end of the pipeline. If I had invested in the fund, that fund, give that money too much fund -- to too much fund and too much money, I lose the co-investment opportunity.

VICE CHAIR TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR HSU: So it's very, very interesting dynamic. So I want to be very, very careful in examining this. The best scenario is, okay, you have a very comprehensive net and then you look at relative value. And then you do that investment. In the mean time, it's sustainable and in benefits the goal, but also make money for CalPERS. So that is our approach to that. And then we very, very deliberately told our managers that we want you to incorporate sustainability and governance, everything, into your investment process, into your credit selection.

VICE CHAIR TAYLOR: So for the layperson could you give -- kind of give me an idea. So we're loaning people money basically, correct? Is that it? We're giving them some kind of --

MANAGING INVESTMENT DIRECTOR HSU: We're lending to them.

VICE CHAIR TAYLOR: Yeah, we're -- not people, but the company.

MANAGING INVESTMENT DIRECTOR HSU: The companies.

VICE CHAIR TAYLOR: I apologize.

MANAGING INVESTMENT DIRECTOR HSU: Yeah.

VICE CHAIR TAYLOR: So they come to us and they -- and they chose not to go through a regular bank, for what purpose?

MANAGING INVESTMENT DIRECTOR HSU: Okay. Regular bank, number one, the banks, if you look at bank given corporate a loan, it is very like capital intensive for the bank to hold it. So if you're a bank shareholder or the bank management team, having that loan on your book on your balance sheets actually requires a lot of capital, so that's why the bank is retreating from this area.

VICE CHAIR TAYLOR: Got it.

MANAGING INVESTMENT DIRECTOR HSU: What bank is doing is that okay, like us, lending into company A and through our managers, right? So for our GPs, I have the fund and then the bank go up on the capital structure. They lend to our fund, then giving our fund leverage usually capped at one to two times.

VICE CHAIR TAYLOR: Got it.

MANAGING INVESTMENT DIRECTOR HSU: Okay. So they go up on the capital structure, in this way that their capital requirement is less and their return on their equity will be higher. So this is what we called the bank retrenchment. It is not only happened in the corporate lend, but it also happens in asset-based financing. So today -- later on today that -- in the closed session we will have a thorough discussion about this.

VICE CHAIR TAYLOR: Thank you. I appreciate that, because it helps me understand how we get to implement our climate strategies, our Labor Principles, diversity and inclusion, right, whether we're, you know, getting diverse managers that we're investing with or however we do that. I really want to sort of dig deep into that and see how that -- how we can get that -- because I understand this is a difficult asset class to do that with, how we can integrate that into asset class.

MANAGING INVESTMENT DIRECTOR HSU: Yes. Yes.

VICE CHAIR TAYLOR: Thank you.

CHAIR MILLER: Okay. Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And quick question, Jean, and then a comment on behalf of the Treasurer. So first, of all, congratulations.

MANAGING INVESTMENT DIRECTOR HSU: Thank you.

ACTING COMMITTEE MEMBER RUFFINO: Really congratulations. Your -- the private debt portfolio is performing well and we all acknowledge this. So great kudos to you and your team. And by the way and you also have outperforming the policy benchmark since 2020. Great.

Do you feel -- according to the Wilshire report, the team is understaffed and could use more resources. I'm wondering your comment on that, and, you know, do we need -- what do you think we should do as you exit? Do you have any words of wisdom for us?

MANAGING INVESTMENT DIRECTOR HSU: Yes. Thank you very much. And thank you -- I want to thank you for your support in terms of the resources. Yes, I do agree with Wilshire, okay? In the past, because we are not so sure about like how big this area is, so we are like testing it. So we use very, very lean staff. And then I always joke with my staff that, hey, you are here. It's just like a start-up, right? So you have to be like, you know, a principal of a primary school as well as the custodian. We do everything. Okay. I myself do everything too.

If the staff is very busy, I help them on PowerPoints. I help them on Excel spreadsheet. I help them. The only thing I cannot help is Ryan's area when they're coding. I cannot code. Okay.

(Laughter).

MANAGING INVESTMENT DIRECTOR HSU: So it is true that if we have more, especially junior staff, which can offload a lot of the more mundane works or monitoring works for the senior staff, that would be greatly helpful. So right now, we do not have any IO I, II, III positions. We do need that one, so that we can develop verticals underneath every single underwriters. And then that is also Good for the succession and then training the newcomers.

So, yes, we -- I do think that we need a couple Investment Officers for each individual slice. And then I think some day in the future, I think the technology and database analysis is so important. But for -- it's as important for Investment Office as a whole. It's also important in the individual asset class, because you have to be so close to the asset class to understanding the needs of it, so that you can cater and then specify, customize whatever you need.

In that area, I think we can use more talent. That greatly facilitates our efficiency. You know some of you may wonder that how can we, you know, only have like, you know, eight, nine people? How can we do so many things? It is the efficiency that Ryan's team is giving us. Strategy, thinking, and then seeing a lot of things, data driven, database, a number based, that give us insight into how we should go next.

ACTING COMMITTEE MEMBER RUFFINO: So, Jean, not to put you on the spot.

MANAGING INVESTMENT DIRECTOR HSU: Yeah.

ACTING COMMITTEE MEMBER RUFFINO: But have you taken steps to communicate that, you know, whether it's establishing new positions, or letting your successor know that he should be considering, you know, some of the suggestions that you just outlined?

MANAGING INVESTMENT DIRECTOR HSU: Oh, I know that last year, because the State has some budget issues, so we do not have any head counts. And then, you know, we still have like Investment Manager level, you know, vacancies that we were not able to fill yet, so we were focusing on that.

But, you know, we did discuss with Wilshire because Wilshire is our consultant, that we are in constant dialogue and that Wilshire always ask us, hey, do you have this, and we do -- I do communicate this with Wilshire. Yeah.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And I'll just add to that, Frank. So we're just filling the open positions that we've got at the minute. And then we're going to review the organizational design and I'm aware of Jean's ask on that front.

Thank you.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Great. So and finally, at the risk of repeating, but I think it's worth it after 25 years of service -- faithful service, on behalf of the State Treasurer, you know, we want to wish you a retirement filled with serene sunsets hopefully, leisurely mornings, you know, and the joy -- just the absolute joy of savoring life at your own pace, something that I am telling myself by the way as well.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: After 38 years.

You have earned every moment of your new found freedom.

MANAGING INVESTMENT DIRECTOR HSU: Thank you.

ACTING COMMITTEE MEMBER RUFFINO: Thank you for your dedication to the CalPERS team and to public serv -- to all public servant in the State of California. So by the way, don't -- I hope you got your certificate. You only get it by the Governor, if you haven't, make sure you get 25-year retirement service award. That's all you get. After that, I told you, 30 years. I haven't gotten any more.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: So be sure -- be sure you get your 25 years and you wait out a certificate. It's signed by the Governor. It's a nice little, you know, memento and enjoy your retirement.

MANAGING INVESTMENT DIRECTOR HSU: Thank you so much. Frank, you're making me cry.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair.

CHAIR MILLER: Thank you. I think that about covers it. I don't see any more requests to speak from the Board. So again thank you from all of us. And let's see, I don't see any requests to speak on 5c and so we will move on to 5d, real asset annual program review.

CHIEF EXECUTIVE OFFICER FROST: I'll just turn his over to you, Sarah. So without repeating myself, it will be Real Assets Program review.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR CORR: Thank you, Marcie. Sarah Corr, Real Assets, Investment Office.

Upon reflection of the fiscal year 23-24, it was a year challenged by economic uncertainty and high interest rates.

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MANAGING INVESTMENT DIRECTOR CORR: These factors have contributed to eroding fundamentals in certain segments and increased costs of capital, which put downward pressure on valuations. We are very mindful of the underlying risks and are fully engaged with our managers in maintaining strong fundamentals to preserve that value. The annual program review, highlights our program overview, portfolio positioning, accomplishments, and ongoing initiatives.

Can we turn to slide three?

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The role of real assets specifically providing predictable cash yield drives us to focus on core assets that offer resiliency through cycles. We are currently in a part of the cycle where our core focus and conservative capital structures have offered some protection in an environment filled with downside risk. The real estate portfolio is concentrated in well liquid assets with defensive characteristics, while the infrastructure portfolio is comprised of essential assets with predictable cash yields. The portfolio is fairly concentrated with 28 partners, 18 of which are considered strategic.

Consistent with the strategic plan, the team continues to focus on deploying capital at scale while maintaining high underwriting standards. The Board-adopted Investment Beliefs influence our approach to investing. We commit capital to partners in cost effective accounts with long-term hold mandates.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: While the infrastructure portfolio, we have been building strategic relationships with highly reputable market-leading managers and leveraging our ability to co-invest to be more cost effective. Staff has effectively repositioned the real estate portfolio and is now in a place where we can look to move the -- up the risk curve and selectively increase exposure to non-core managers. Given the elevated financing costs, we have been disciplined with our use of leverage. Within the real assets portfolio, we look to invest capital in energy transition in sustainably certified assets to align with CalPERS Sustainable Investments 203o goals.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Increased interest rates have had an impact on valuations within the real estate. This is especially true for the office sector, where there is a widening difference in demand for Class A and Class B office. Increased debt coupled with economic uncertainty is also contributing to a material reduction in transaction volumes.

Market-wide nearly one trillion of commercial real estate debt matures in 2024. It is likely that not all this will get refinanced and some investors will end defaulting on the loans and giving the keys back to the bank.

Increased interest in AI and net zero targets have created tailwinds for digital and energy transition assets within infrastructure. While we haven't seen widespread distress in the real estate market yet, we are positioning ourselves to be able to take advantage of opportunities should they arise.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The real estate portfolio is approximately 75 percent real estate, 25 percent infrastructure. This compares to 80 percent real estate and 20 percent infrastructure a year ago. This change was intentional and consistent with the current plan, which has increased focus on infrastructure. The portfolio has formed well relative to the benchmark in the ten-, five-, three-, and one-year periods. However, the impact of the global financial crisis can still be seen in a 20-year number.

In the one year, real estate -- real assets returned a negative return from real estate portfolio was slightly offset by a positive return within infrastructure.

Slide seven, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The portfolio -- the real assets portfolio is currently 84 percent core. And this portion of the portfolio has met or exceeded the benchmark in the ten-, five-, three-, and one-year time periods. The non-core segments have underperformed in all time periods. However, the majority of this exposure is legacy assets, which are disposition candidates.

Slide eight, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The real assets portfolio is now $66 billion and has decreased by approximately $4 billion over the past year. This is largely led by write-downs in the real estate portfolio.

Moving on to slide 10.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: We'll now focus on the real estate portfolio specifically. The portfolio is well diversified by sector. While the performance has been strong on a relative basis and exceeded policy benchmark on an absolute basis, the performance has only exceeded the capital market assumptions in the 10-year period.

Slide 11.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: When you look closer, the core portfolio, which makes up approximately 90 percent of the real estate portfolio has performed well, exceeding the benchmark by 180 basis points in the 10-year period. The non-core real estate portfolio continues to drag the returns.

Slide 12, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The real estate portfolio is approximately $50 billion in net asset value.

Slide 13.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The portfolio is currently overweight retail and slightly underweight all other sectors relative to the benchmark. Approximately one-third of the real estate assets by value are located in California.

Slide 14.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The next part of the presentation will focus on the infrastructure portfolio.

Slide 15.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The infrastructure portfolio is 70 percent core and has outperformed the benchmark in the ten-, five-, three-, and one-year periods. It should be noted that there is currently a mismatch between the infrastructure portfolio and the benchmark as the real assets benchmark is a real estate benchmark. We commit -- as we commit to commingled funds, the unfunded commitments to infrastructure is expected to grow. The total value to paid in capital, or multiple invested capital is 1.36 for the infrastructure portfolio.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The focus on growing the infrastructure portfolio is playing out. The portfolio has grown from $6 billion in NAV in 2020 to $15.5 billion in 2022.

Slide 17.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The assets are split evenly between the United States and international developed markets. Transportation represents the largest sector. However, as the portfolio grows, we are continued to see the increased diversification across the portfolio.

Move on to slide 18, we'll go back to the Real Assets Program overall.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: The asset portfolio is comprised of high quality essential assets with modest leverage. This has served the program well by providing stability and resilience and over the past year, despite market conditions, which put downward pressure on valuations. We expect the real estate market to continue to face challenges in the near term.

Tail ends remain for the infrastructure portfolio. A big initiative for the program this year was to partner with Sustainable Investments to further integrate SI into our decision-making process.

Slide 19.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: Looking forward, we will continue to focus on best-in-class managers and to seek to prudently add more non-core managers to the portfolio in both real estate and infrastructure. We will do this in a cost efficient way by focusing on co-investment vehicles. Consistent with the total fund's 2030 plan, we will seek out opportunities in the sustainable investment universe.

I will conclude my comments with some comments on sustainability on slide 20.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CORR: There is continued broad participation from our managers in benchmarkings sustainable practices GRESB with 85 percent of the portfolio being represented in 2023. We continue to evaluate new tools to better assess physical and transition risk associated with climate change across the portfolio and research potential opportunities associated with energy transition.

We continue to work with our separate accounts on our energy optimization initiatives to identify attractive opportunities that meet or exceed our return requirements, but also reduce the carbon intensity of the portfolio.

That concludes my prepared remarks and I'm now available to ask any questions -- answer any questions.

CHAIR MILLER: Thank you.

First, I have President Taylor.

VICE CHAIR TAYLOR: Thank you, Chair Miller. Hey, Sarah, how are you?

MANAGING INVESTMENT DIRECTOR CORR: Good.

VICE CHAIR TAYLOR: So I had a quick question and it's probably not a quick question. It's probably complex. So for the long term we know that we need to be investing in urban core cities for our real estate, but that's where our biggest problem is right now. And its -- and it would be in an effort to bring these cities out of this morass that they -- they're in. Do you have any thoughts on how we could contribute to that work or collaborate with other stakeholders, the Governor, the cities, the count -- any ideas?

MANAGING INVESTMENT DIRECTOR CORR: You know that's a hard one. Our exposure -- we're overexposed to office, underweight relative to the benchmark, but overweight where we want the portfolio to be. And so investing in office and inner cities is not something that we're looking at right now. I think there needs to be a little more stability before we --

VICE CHAIR TAYLOR: Is there a way to look into turning that office space into something else that would bring something to the city?

MANAGING INVESTMENT DIRECTOR CORR: Yeah. Office space, depending on how the office is built is not -- may or may not be able to be repurposed for something else without tearing it down.

VICE CHAIR TAYLOR: Got it.

MANAGING INVESTMENT DIRECTOR CORR: And then we get into development risk and the different risk profile for --

VICE CHAIR TAYLOR: That investment.

MANAGING INVESTMENT DIRECTOR CORR: -- the portfolio.

VICE CHAIR TAYLOR: Yeah. Okay. Just a thought.

All right. The last thing I wanted to ask, and I know it's not you, and I forget to ask it with Jean, was we're getting back into mortgaged-backed securities. And I'd like you to address that for us. And you can do it later after we're done with these guys. So thank you very much.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yeah, we can take that during the closed.

CHIEF EXECUTIVE OFFICER FROST: So Daniel can take that for you, Theresa.

VICE CHAIR TAYLOR: Oh, okay. Yeah. Thank you, Daniel.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: So I think pertaining to the private debt program, we're not changing the strategies that we're investing in. We're just being a little bit more clear with the classifications. So there's no strategy change per se. They were within the sort of asset based finance and specialty finance vertical beforehand. So it's not a change per se in strategy. And the investments that we will do in those areas are in high FICO score and residential mortgages as part of the diversified portfolio with an external manager who's an expert in that area. So it's not a fundamental change. It's a small part of the program and it's not a high risk part of the program.

VICE CHAIR TAYLOR: So we've been doing it? I'm sorry, David. I'm -- oh, thank you.

We've been doing it before?

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: It's part of the -- it's part of a strat -- so we don't have -- it's part of a strategy of some of our funds who focus on multiple strategies and sectors.

VICE CHAIR TAYLOR: Okay. And the reason I'm asking is because that's -- I got on the fund after all of this happened, but that was -- we were very heavily weighted in mortgage-backed securities. And I know that you're focusing on the high end, probably A rated, right? But they're packaged in these packages. And do we know for sure what's in the packages of these mortgage-backed securities? So that's where I think that a lot of the problem did occur in 2008. So I just want to ensure that that's not what we're getting to.

CHIEF EXECUTIVE OFFICER FROST: We can bring Jean back. And a lot of the problem of '08 was due to subprime.

VICE CHAIR TAYLOR: Yes, it was, but sometimes --

CHIEF EXECUTIVE OFFICER FROST: But we'll have Jean talk to you.

VICE CHAIR TAYLOR: Yeah.

MANAGING INVESTMENT DIRECTOR HSU: Yeah. So just very quickly, so you -- we should think about the residential mortgages that we're engaging right now. It's more like, you know, in California, in New York, those coastal areas. There's a lot of like you and me that our houses, you know, although that we are not very rich, but our houses is already above whatever the Fannie Mae Freddie Mac conforming loan balance, right, so not qualifying mortgages. It's like very, very common.

So if you think -- go back to the -- before the Financial Crisis, there's a lot of fluffiness in the market, right? A lot of people who doesn't have the ability to pay for the mortgages. They participate in that and they do that through the subprime alt a market. And then when the market tanks, they no longer have that ability to flip. And then they do not have the ability to pay the interest either. So that's why, you know, it becomes like a huge disaster.

VICE CHAIR TAYLOR: Sure.

MANAGING INVESTMENT DIRECTOR HSU: Right now, those more problematic lower income, lower affordability, that type of mortgage actually goes to the government, which is called Ginnie Mae. So Ginnie Mae's quality of the pool becomes the new subprime. Okay. Whatever is left in the Fannie and Freddie is very, very pristine. You have to be -- like everybody's FICO has to be like 735 in order to get qualified for a mortgage, right?

So the -- so whatever that we're doing? Right now, we're looking at, you know, financing a lot of -- which is outside of what the government is willing to finance. Yeah. And then the LTV actually is very low on that.

VICE CHAIR TAYLOR: Okay. So you don't see us, because once the subprimes fell, then all of it fell, right? So that's where I'm mainly concerned. The problem is that if it crashes, then it -- then it all crashes, so these lovely mortgages that we have still end up upside down or whatever. So I guess what I'm getting at is how much are we in that right now? How much will it impact our portfolio if that were to occur again?

MANAGING INVESTMENT DIRECTOR HSU: Okay. So this is an area which is like also a part of the bank retrenchment. Okay. So bank is retreating from this area too.

VICE CHAIR TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR HSU: So there has to be somebody, in addition to the government, who just like, you know, filling the gap to make this whole economy going. One thing, which is mitigating the risk is that right thousand in residential mortgages, the supply demand is actually very, very imbalanced --

VICE CHAIR TAYLOR: Right.

MANAGING INVESTMENT DIRECTOR HSU: -- in most of the area. It's very hard, very little house for sale, very hard for people to buy a new house and have a new mortgage, right? So this mitigates the risk.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yes. And I just add to that, if I may. So I think the risk now days is in the commercial real estate lending, so it's lending to office. So there you've seen --

VICE CHAIR TAYLOR: Well, right. We can see that right now.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: -- the values down 50 to 90 percent.

VICE CHAIR TAYLOR: That's not my question though.

This could happen again --

MANAGING INVESTMENT DIRECTOR HSU: Yes.

VICE CHAIR TAYLOR: -- I'm just saying. And so how are we prepared to handle it, even if we're in good mortgages, right?

MANAGING INVESTMENT DIRECTOR HSU: Yes.

VICE CHAIR TAYLOR: Everything crashed when it happened before.

MANAGING INVESTMENT DIRECTOR HSU: So, yes. Yes. So right now the key issue that we have is that we finding GPs, which are super experienced in this area. We can talk about that in the closed session. They have a lot of data to stratify individual borrowers of these borrowers what is your history. And then they use a lot of behavior signs to interpret the willingness of payment of individual borrowers. And then what is very important is these managers they have a good knowledge about every individual zip code.

So in areas where there are still possibility of unlimited expansion and overbuild, that is the area that which may subjected to some problem. But in other areas, where there is like limited land and limited development, then our managers will be able to distinguish the good versus the bad and then do the selection. This is no different than what we are doing in the corporate credit selection. It's really on what is your -- how do you underwrite and then what is the value of it? And then at the end, how much do you lend against that value, so the LTV becomes very, very important.

Back in the Financial Crisis, you have like 80 percent LTV, right? And then some of them have second liens back of that 90 percent. They only need to put in like, you know, 50K and then they can buy a million house. So that will not happen in today's environment.

VICE CHAIR TAYLOR: Okay. So what's our percentage, I guess, is where I'm going. What's our percentage of exposure?

MANAGING INVESTMENT DIRECTOR HSU: Right now, the percentage is very, very minimal, very, very minimal. Okay. It's embedded in one of our resi -- our commercial real estate complex. But we see this some day in the future, this deserve its own sleeves, because what happens if there's opportunity. For example, after financial crisis, getting into the residential mortgages, buying it at a very, very cheap valuation, and then very, very low LTV, that will make us money. So there is always a price tag for everything. You have to buy it at the right price. You will make money. Yeah.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yeah, and I'll just add. So credit underwriting standards are tighter. And also after 15 years of underbuilding post-GFC, the housing supply demand market dynamics look a little bit different. So the risk is a little bit different today than 15 years ago for those two factors.

VICE CHAIR TAYLOR: All right. Thank you.

CHAIR MILLER: Okay. Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Yes. I was just wondering about something. I'm not sure I want to mention it in public.

VICE CHAIR TAYLOR: I can't hear you.

ACTING COMMITTEE MEMBER GALLEGOS: Can you move on to the next person before coming back to me?

VICE CHAIR TAYLOR: Okay. I'll come back to you.

Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you Chairman Miller and thank you, Sarah, for your presentation. So I want to piggyback on that question on the mortgage-backed securities and just elaborate -- and this is for Jean. I think, Jean what do -- with the conforming loans, do we have that in our portfolio or not, or -- and if we -- and if we do, are we aligning ourselves with Freddie and Freddie Mac on that? I'm just --

MANAGING INVESTMENT DIRECTOR HSU: Conforming loans is in Fannie Mae to Ginnie Mae.

COMMITTEE MEMBER PACHECO: Yes.

MANAGING INVESTMENT DIRECTOR HSU: Ginnie Mae, Freddie Mac. That the loans to Arnie's portfolio, we have a huge portfolio of residential mortgages in our public market. What we are trying to do is that when the bank retreat --

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR HSU: -- is there opportunity for us to replace the bank to make more money versus Arnie's portfolio.

COMMITTEE MEMBER PACHECO: And that's where we go into the middle market and so forth in those areas. And I'm just trying to understand that whole process.

MANAGING INVESTMENT DIRECTOR HSU: A residential market does not have middle market. Residential market is individual homes, like my house, your house.

COMMITTEE MEMBER PACHECO: Oh, I see.

MANAGING INVESTMENT DIRECTOR HSU: And then pull together thousands of them in one pool. So in the public market, Fannie Mae or Freddie Mac, they'll have a pool. The pool may have like a thousand individual collective.

Still that's called pooled mortgage. So you pool them together, you securitize them, you use all the cash flow from this one, and then to pay in the mortgage side, they score pass-through. They pass through the coupons to you --

COMMITTEE MEMBER PACHECO: Oh, I see.

MANAGING INVESTMENT DIRECTOR HSU: -- and then deduct something. And then in the non-residential mortgages -- sorry, non-conforming, whatever that we can do or the banks can do in the past, and then going forward, we pool things together. These are not guaranteed by the -- by the government.

COMMITTEE MEMBER PACHECO: These are the non-conforming.

MANAGING INVESTMENT DIRECTOR HSU: Non-guaranteed portion of it.

COMMITTEE MEMBER PACHECO: Got it.

MANAGING INVESTMENT DIRECTOR HSU: Yeah. But we can tranche it out. Like, for example, the bank or the insurance companies, they want lower risk. They can do very, very high, you know, on the capital structure. They earn probably a hundred basis points.

COMMITTEE MEMBER PACHECO: I get it.

MANAGING INVESTMENT DIRECTOR HSU: Okay. And then gradually, you can say, okay, if you are mezzanine or if you are the residuals, then you can earn higher. Essentially, that they are providing you a leverage for you to have more returns.

COMMITTEE MEMBER PACHECO: Oh, I see. Thank you very much for that comment. That clarifies a lot with me.

Now, Sarah's questions. So Sarah, on the real estate, you mentioned in your key initiatives that real estate is near -- a near-term performance, but they're challenged with higher interests rates and corresponding capital market adjustments. And one of the volatility that I saw the forecast volatility in the infrastructure was 22 percent. And I'm just wondering what your thoughts on that and if you can elaborate more on that.

MANAGING INVESTMENT DIRECTOR CORR: Yes. So with increased interest rates, it's resulting in increased cap rates, which will bring evaluations down on the real estate side. On infrastructure, we're not seeing as much of that impact, mostly because there's, you know, quality assets that are growing at a rate that can still service the leverage.

The forecasted volatility I don't have that. Can you put that slide up?

COMMITTEE MEMBER PACHECO: It's on page 15 of 20.

MANAGING INVESTMENT DIRECTOR CORR: So the forecasted volatility comes from the capital market assumptions.

COMMITTEE MEMBER PACHECO: Yes.

MANAGING INVESTMENT DIRECTOR CORR: And because it's a private market, it's an estimate. The volatility that we actually experience is much less than that.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yeah. And maybe just two additional comments there. So the first thing I'd say for real estate is that you had a compression of cap rates post-COVID. So then when interest rates went up, they were quite exposed, because the real estate assets were trading at very low cap rates. And so hence, you saw a big uptick in real estate and then a big drawdown.

Through infrastructure, it's been a little bit more bit study.

COMMITTEE MEMBER PACHECO: Um-hmm.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: So you expect it -- the realized volatility has been less than real estate, because you didn't have that big compression in cap rate and then expansion. You also have more direct cos pass-through in the infrastructure assets and more inflation adjustments. So that also compensates it somewhere.

So the forecast here is just like a mathematical things of adjusting for the higher leverage that you have in infrastructure assets, but it's not a volatility that you see in the realized space.

COMMITTEE MEMBER PACHECO: I see. So it's like you mentioned before, just an estimate on this. Thank you. So that clarifies it. Thank you very much.

CHAIR MILLER: Okay. I'll come back to Deborah Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: So I understand that the staff has done some work around affordable housing. So to the extent that you can share any work that you've done there, the Controller would really love to hear about that and just applaud you on moving in that direction.

MANAGING INVESTMENT DIRECTOR CORR: Yeah. We have done some -- we spent two years doing some research on affordable housing and then doing diligence on a few managers in the space. I can talk more about that process in closed session.

ACTING COMMITTEE MEMBER GALLEGOS: Sounds good.

MANAGING INVESTMENT DIRECTOR CORR: Okay.

ACTING COMMITTEE MEMBER GALLEGOS: Perfect. Thank you.

CHIEF EXECUTIVE OFFICER FROST: So one of those fundings will be public very soon.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you.

CHAIR MILLER: Okay. Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. -- thank you, Mr. Chair.

Before I ask the question real wick, Sarah, I wanted to congratulate all the folks who have been promoted from your team just like the -- we mentioned earlier specifically the Investment Director. My understanding is, you know, that we hired now. He's -- it was filled by promoting one of our own, right? And there's been several others, so congratulations to all of them.

And to the question, maybe you can give us your thoughts, clarity. And that is the question regarding Meketa recommendation, with -- which speaks about, you know, the proposed -- they're talking about that we may need a proposed policy change on the -- this is on page seven of the report, so -- and this is the risk. You know, they're talking about the value added slightly above the policy limit right now, right? It's 27.5, which it should be 25 percent.

MANAGING INVESTMENT DIRECTOR CORR: Correct.

ACTING COMMITTEE MEMBER RUFFINO: And then they are proposing a change to about 50 percent. And I'm just curious your take on that.

MANAGING INVESTMENT DIRECTOR CORR: So currently, there's a limitation of 25 percent to value-add and we are currently in breach of that. We informed the Committee about that back in January or February, I think.

ACTING COMMITTEE MEMBER RUFFINO: Um-hmm.

MANAGING INVESTMENT DIRECTOR CORR: So it's 50 percent to value-add and -- or 25 percent to value-add and 25 percent to opportunistic. So up to 50 percent can be in things that are not core. So we made a proposal back in March for that to be changed and there's a second reading in two agenda items, I think, for that.

ACTING COMMITTEE MEMBER RUFFINO: Is it later today?

MANAGING INVESTMENT DIRECTOR CORR: Yeah.

ACTING COMMITTEE MEMBER RUFFINO: Okay. That's what I thought. I -- okay. Perfect. Thank you. Thank you for clarifying that. Thank you, Mr. Chair.

CHAIR MILLER: Okay. President Taylor.

VICE CHAIR TAYLOR: The last thing Sarah. I just wanted to thank you for your leadership in our sustainability. On page 20, 85 percent of the portfolio being submitted into GRESB assessment ongoing identification. I just think you guys are really ahead of the curve there, so we really appreciate it. Do you foresee how we're going to institute the Labor Principles in your portfolio, not necessarily right at the moment?

MANAGING INVESTMENT DIRECTOR CORR: Yeah. I think the next item is about --

VICE CHAIR TAYLOR: The Labor Principles.

MANAGING INVESTMENT DIRECTOR CORR: -- the Labor Principles and how they're being implemented. We have got attestations from all of our managers that they --

VICE CHAIR TAYLOR: Oh, good.

MANAGING INVESTMENT DIRECTOR CORR: I can't remember what the exact language is, but all of the managers have attested that they're in support of the principles. Largely abide, is that the language? So -- and, you know, we haven't made any new commitments since those were put in the place to be put in side letters, but we anticipate that the managers will put language in the side letters as well.

VICE CHAIR TAYLOR: All right. Well, congratulations again on your work on this.

Thank you.

VICE CHAIR TAYLOR: Yeah.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: And President -- sorry, Theresa Taylor. I would just say the SI work that's been done on the real assets team is exceptional. And being relatively new to CalPERS one year in, I'm very impressed by the work that Sarah and team are doing, as well as CalPERS as a whole, but particularly in our real assets area.

And I've got one other comment, which is just in our real estate performance. So you've shown on the -- we've shown on the one year here that we're outperforming by a hundred basis points. I just wanted to flag that we don't mark to market our debt. So the benchmark marks the debt to market. So as rates go up, the cost of the debt go up. We don't do that. And we've also got more leverage than the benchmark.

So those two are headwinds. But despite those two things, we've managed to outperform the index. And I think even more satisfying for me is on a forward-looking basis, the types of real estate that we're in, Class A real estate, look much better positioned for the future, where some of the lower risk stuff will probably have a terminal decline over many, many years. So I don't think we have that risk.

So I think we're well positioned going forward, but also the success of the past year is not fully reflected in the numbers because of those points.

Thank you.

VICE CHAIR TAYLOR: Thank you.

CHAIR MILLER: Okay. Well, that's a nice segue. I'm inclined to power through and get to lunch a little late. We have a lot of folks here for this next item and so I'm going to go ahead and call for 5e, implementation of Labor Principles. I didn't see any requests to -- for public comment on 5d. So if I'm not mistaken, we'll move on to 5e.

CHIEF EXECUTIVE OFFICER FROST: Thank you, Chair Miller. I'll ask Peter Cashion who's here and Tamara Sells to join the table. This item does provide an update on, among other items, the implementation of the CalPERS Labor Principles, including the process to date, the attestation status for current managers and also the methods for accountability and steps if a potential Labor Principle violation is identified.

So with that, I'll turn it over to Peter first and then to Tamara.

CHAIR MILLER: Thank you.

(Thereupon a slide presentation).

ASSOCIATE INVESTMENT MANAGER SELLS: All right. Good morning. Tamara Sells, Associate Investment Manager, Sustainable Investments. Thank you for having us here today and thank you for your continued support in this work.

Today, we will present Agenda Item 5e, implementation of the CalPERS Labor Principles and provide a brief overview of the Labor Principles and it's application.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: We'll give an update on the Labor Principles implementation timeline and activities. We will review the attestation portal, outreach, and attestation status for current managers. We'll touch on implementation for new allocations. And we'll discuss our approach to accountability. As you recall, the CalPERS Labor Principles are five core beliefs and sub-beliefs that reflect our position on the critical importance of responsible practices around workforce management and providing a safe and healthy workplace for those who give their time and talents to value creation.

And the Labor Principles apply to all assets. Separately, there will be a presentation later today on the Responsible Contractor Policy refresh. And as a reminder, the Responsible Contractor Policy only applies to U.S. real estate and infrastructure assets, where CalPERS holds a greater than 50 percent interest and while the CalPERS Labor Principles will apply to all investments.

VICE CHAIR TAYLOR: Can you pull your mic a little closer?

ASSOCIATE INVESTMENT MANAGER SELLS: Sure.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: Good afternoon. Peter Cashion, Sustainable Investments.

In July 2023, the Board asked the CalPERS staff better highlight CalPERS Labor Beliefs. CalPERS staff assessed how labor was already addressed -- how CalPERS was already addressing labor in our existing standards and documents, and reviewed labor frameworks by industry leaders such as the American Investment Council, "Guidelines for Responsible Investing," and the International Labor Organization, "Declaration on Fundamental Principles of Rights at Work."

In September 2023, CalPERS staff presented a draft of the proposed Labor Principles, which would give greater prominence to the existing language on labor through a dedicated section of the CalPERS Governance and Sustainability Principles. At the November 2023 Investment Committee meeting, the Board approved the CalPERS Labor Principles and revised this Governance and Sustainability Principles with the Total Fund Policy.

Now, from December 2023 to March 2024, CalPERS Investment staff and CalPERS IT staff along with the Legal Office, all partnered together to develop and design an outreach process in portal for implementing manager attestations. In April 2024, the attestation portal was launched and the outreach was made to CalPERS current private asset managers requesting asset -- attestations. CalPERS has a select number of external managers in our public market, but we have a broad and significant exposure to public companies that CalPERS manages internally. CalPERS passive capital is managed internally and we may even more own -- we may even own more than some of the external managers. So based on the direct ownership and our corporate governance team use of stewardship to vote proxies and engage companies, we view that as most effective for CalPERS to manage potential Labor Principles with public market companies directly with the company instead of being reliant on an external manager. From May to date, CalPERS staff has continued to track and monitor attestations and make outreach.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So slide four is -- slide four is a visual example of the attestation request that was sent to private asset managers in April. The communication outlines the five point framework for CalPERS's Labor Principles and makes clear CalPERS' position on responsible practices around workforce management being fundamental to our investment strategy across the total fund. In addition to sharing the labor principles, managers were asked to acknowledge receipt and attest to their broad alignment with the Labor

Principles via a link to the Labor Principles' attestation portal.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: So slide five is the visual example of what the managers will see when they click the link into the portal. The visual reflects that first screen -- or excuse me, the visual on the left reflects the first screen that the manager will see when accessing the portal. They are asked to confirm that they have read CalPERS' Labor Principles and confirmed their broad alignment. The proper representative would then input their contact information and click submit. And so the visual on the right is an example of a fully completed form right before submission.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: As mentioned, in April 2024, attestation requests were sent to 161 existing private asset managers and representatives. As of June 10th, 129 attestations, or 80 percent, from our current private market managers have been received. CalPERS staff continues to track and monitor attestations and make outreach to the remaining managers that have not yet had a chance to attest. So these numbers are out of date, but in a positive and a good way.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR CASHION: CalPERS staff has begun to ask new managers to participate in the Labor Principle attestations and referencing the attestation in our legal contract side letters. CalPERS staff will provide updates on the implementation of Labor Principles to the Board as part of the CalPERS Sustainable Investments 2030 strategy progress update, which will be in November.

[SLIDE CHANGE]

ASSOCIATE INVESTMENT MANAGER SELLS: Thanks. There will be various methods for accountability depending on where we are in the investment stage. We will integrate Labor Principles pre-investment due diligence, at investment through side letters, and post-investment through our manager engagements. As a reminder, these potential violations will be raised or brought to staff in a number of ways usually through our managers or stakeholders, staff of the Board. So we will then look at any potential violation of the Labor Principles and manage it through the CalPERS stakeholder engagement process.

So CalPERS staff will first identify the issue. Step two, CalPERS staff will conduct initial information gathering to determine CalPERS exposures, the relevance to portfolio risk, and long-term performance, assess whether the issue reflects misalignment with our Labor Principles, and assess whether CalPERS can influence an outcome or whether CalPERS should partner with others to take up the issue.

Step three, CalPERS staff will conduct a stakeholder meeting to get their views and perspectives on the issue.

CalPERS staff will also conduct an engagement with the investment manager and get their views and perspective on the issue and encourage resolution.

Step five, CalPERS staff will continue to monitor the issue and provide communication to relevant parties.

If staff determines there is a violation of CalPERS's Labor Principles, staff will identify and advocate for mitigating actions to take place and request that the manager provide a plan for resolution, risk mitigation, and controls to prevent future issues. Staff will also notify the Board after conducting an assessment of CalPERS's current and future relationship with the manager and portfolio company.

The engagement process may conclude in any phase based on analysis and findings, but all Labor Principles related issues will run through that five step stakeholder engagement process.

This concludes the presentation of agenda Item

5e, implementation of the CalPERS Labor Principles, and we would happy -- be happy to answer any questions that you have.

CHAIR MILLER: Thank you for the presentation. It's very encouraging and I've got several questions for you from Board members. I'll start with President Taylor.

VICE CHAIR TAYLOR: Ooh, I must get that button pushed really fast.

Tamara and Peter, thank you very much. I want to acknowledge you guys for all the hard work you've done, all of the stakeholder engagement that you went through, but also our engagement, and then all the work that you continue to do on a -- on the daily anyway, right? So Tamara, thank you very much for continuously talking to our stakeholders on these issues, because I know we have a lot issue unfortunately, but you have been really, really responsive and I want to thank you and call you out today for that.

Really glad about this progress and that was the thing that we are all kind of looking for when we called out some sort of accountability. So thank you very much for that. So one of the things I think I want to make sure of is that as you're having to engage, I don't know if -- it doesn't have to be a report to the Board like in a meeting. If we could have a spreadsheet, you know, that hits our -- what's that called, Insight, so that we could kind of take a look at where you're at, so if we get calls from our stakeholders, then we can say, oh, yeah, but I know this is where we're at, so don't worry about it or something like that. I think that would be very helpful for us.

CHIEF EXECUTIVE OFFICER FROST: Would you like that as Committee direction from the Committee?

VICE CHAIR TAYLOR: Is that okay?

CHAIR MILLER: Sure, yeah.

VICE CHAIR TAYLOR: Okay. But, of course, I'm not saying don't come and report to us, because we still want to hear it. And I think it's really interesting that as this has developed, a lot of investment managers, the government, the federal government has recognized this work. And again, congratulations, I wish you could have attended with me when I went to The White House.

So historically, lastly less visible workers and -- in health care, home care, food delivery, et cetera, including our members in public service were recognized as essential as -- at the survival after the pandemic. So I think it's important that these who are unrecognized workers, this helps them as well, in one way or another through our portfolios.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for those comments. And can I say you are a step ahead. I recognize the direction, but as part of the ongoing implementation of the Labor Principles, staff are currently in the process of developing a systemic reporting to the Board on these Labor Principles engagement. So you are spot on.

VICE CHAIR TAYLOR: Thank you. Thank you. Thank you very much.

MANAGING INVESTMENT DIRECTOR CASHION: I can also attest that every Friday I get a large spreadsheet from Tamara with all the developments from the past week.

(Laughter).

VICE CHAIR TAYLOR: Tamara was explaining to me that she tracks everything. So I'm very, very happy with that and I'm very glad that this turned into hopefully more people to help you, but also that this turned into such a great body of work that you guys have done.

Thank you.

CHAIR MILLER: Yeah, very good.

Next, Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you. I'm going to keep it short, because President Taylor asked my ask.

(Laughter).

COMMITTEE MEMBER PALKKI: But really I just want to say thank you to everyone. I've been watching the numbers really closely these past couple months and I know that all of you are very humble and modest in your answers, and -- but, you know, the -- since I've been on the Board, the numbers have grown immensely. And so just thank you and keep up the hard work, because I know that the stakeholders and our members really appreciate seeing those numbers raise as well too. So, thanks.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Chairman Miller. And again, Tamara, thank you for your presentation. I really appreciate what you've done, especially the accountability aspect of it. I think this is really -- a really -- something we really need to make sure that we keep check with that. I just wanted to just point out, do you feel that with respect to this -- how this structure is with conducting the CalPERS stakeholder engagement process, do you feel that it will, you know, be able to be a good model for us. Like what we had last year, we dealt with the Packers Sanitation and Blackstone, where we didn't -- we kind of were trying to figure this out. Do you think now that we've got this structure in place, this framework in place, that we don't have to wait that long. We can -- we can really get into it. And when we identify an issue, we can start addressing it immediately, begin the engagement process? I just want your thoughts on that if you can just elaborate.

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. Thank you for the question. I feel confident that we have this process that any issue that's raised under the sustainability umbrella will go through this process.

COMMITTEE MEMBER PACHECO: Um-hmm.

ASSOCIATE INVESTMENT MANAGER SELLS: We have been able to be much more responsive and timely very quickly because we have this process. I would say our communication with the asset classes have been much more tightened and focused as well, because it -- these are issues that are being integrated into the investment decision-making, so we all have to have the right people in the room. I do feel confident that this process will help us move towards the right direction in managing and mitigating these risks.

COMMITTEE MEMBER PACHECO: Excellent. Thank you very much.

MANAGING INVESTMENT DIRECTOR CASHION: And, Mr. Pacheco, the Labor Principles will give us clear standards to go by, so that we can reference the manager will have already attested to them.

COMMITTEE MEMBER PACHECO: Yes.

MANAGING INVESTMENT DIRECTOR CASHION: So it simplifies the conversation.

COMMITTEE MEMBER PACHECO: And actually on the attestment part, that was my next question, with respect to -- since we send out 161 to the private asset managers, these attestations, and we've only received about 60 percent, based on the May 2024, what's holding up the other 40 percent?

MANAGING INVESTMENT DIRECTOR CASHION: Yeah, Mr. Pacheco, let me update that number. So now it is 80 percent.

COMMITTEE MEMBER PACHECO: Eighty percent. So we've got 20 -- we've still got 20 percent, but I --

MANAGING INVESTMENT DIRECTOR CASHION: Yes.

COMMITTEE MEMBER PACHECO: So what's holding them up?

MANAGING INVESTMENT DIRECTOR CASHION: Right. No. Fair question. So some of the attestations they were sent by email. Some were missed, some were not seen. So, in fact, the number stepped up quickly when each of the individual relationship managers reached out to the firm, the asset manager, to say, hey, you may have missed it. If you did, here it is, and this is critically important that you review. So that happened between the 60 percent and the 80 percent.

COMMITTEE MEMBER PACHECO: Okay.

MANAGING INVESTMENT DIRECTOR CASHION: And we expect it will continue to rise. We don't know if it will get to a hundred percent, because frankly some managers might be falling off, where we may not be funding them. There may just be escrow accounts remaining at this point, so the fund is basically repaid us, but the accounts are still active.

COMMITTEE MEMBER PACHECO: I see.

MANAGING INVESTMENT DIRECTOR CASHION: So there may be just some administrative dangling participles there.

COMMITTEE MEMBER PACHECO: Do you feel like with respect to the component of the American Investment Council's, because their component -- their sustainable investment sustainable, does that help in the conversation to accelerate? If you could elaborate more on that.

MANAGING INVESTMENT DIRECTOR CASHION: Yes. No. That's an excellent point. And I think we also owe you for highlighting that over a year ago, the AIC. And, in fact, that -- that -- responsible investing principles have helped us, because in some cases we'll speak to a large asset manager --

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR CASHION: -- and they'll say, well, we're not sure if we can sign something like this. What do we have to -- you know, we have to review it. And then I'll point out to them that, in fact, your firm also already signed up to effectively the same elements under the AIC Guidelines for Responsible Investing. And that actually greatly facilitates and makes it easier internally for them to be like, okay, yeah, we've actually crossed this bridge already.

COMMITTEE MEMBER PACHECO: Excellent then. Well, thank you so much for your comments. And I really appreciate what all of you have done and I'm looking forward to the implementation of the Labor Principles in all -- in all our classes.

Thank you.

CHAIR MILLER: Okay. Next, I have --

CHIEF EXECUTIVE OFFICER FROST: So I think we should also pass on a thank you in recognition to Ms. Taylor. She was actually the first one who brought the AIC to us along with Mr. Pacheco.

Thank you.

VICE CHAIR TAYLOR: I didn't even remember that.

(Laughter).

CHAIR MILLER: Okay. Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And Mr. Pacheco asked the question, but I'm going to do a quick follow-up. But before I do that, I also, on behalf of Treasurer Ma, the Treasurer has been very involved, as you know. And this is an area of interest to her. And so thank you for everything that you have done, Tamara, and Peter, and the entire team. I know we're not quite there yet. We don't have the Mona Lisa masterpiece yet, but we'll get there, but -- and it's a process.

That said, thank you for -- by the way, to -- confirming, you know, from your slide and now we have an 80 percent compliance. So to follow up on Mr. Pacheco's question. If assuming that, you know, a manager says, hey, I'm not responsible for this labor. I'm not going to do this. What's our plan? What are we going to do in simple language, before we get to the accountability? I have a follow-up on the accountability, but what's our action plan?

MANAGING INVESTMENT DIRECTOR CASHION: Right. So first, I don't think we'd be able to fund them. There wouldn't a reup or it would be very challenging. And I think it would not be feasible.

Second, even if a firm doesn't officially attest, sign up to the Labor Principles, we're still, of course, going to hold them to the same standard. So if there is a breach in the fund or portfolio company, we will still engage in the same -- the same manner.

ACTING COMMITTEE MEMBER RUFFINO: So just to be -- oh, sorry, --

MANAGING INVESTMENT DIRECTOR CASHION: Yes.
ACTING COMMITTEE MEMBER RUFFINO: -- I didn't mean to interrupt you.
MANAGING INVESTMENT DIRECTOR CASHION: No.
ACTING COMMITTEE MEMBER RUFFINO: Just to be clear, when you say we're not going to be able to fund them, regardless whether it's within -- whether it's the Board or within the delegated authority, that staff -- it's not funding period. It doesn't matter the amount. Am I interpreting that correct?
MANAGING INVESTMENT DIRECTOR CASHION: Well, Marcie, did you --
CHIEF EXECUTIVE OFFICER FROST: I don't believe currently that we're hearing from any of the managers that now we're contacting between those 60 percent and 80 percent and getting from the 80 to 100. We're not hearing from managers, at least that I've been briefed on, that they're resistant to this. But I think we would have to look at that situation that you just described or the question you just asked on a case-by-case basis. But the whole idea is that we would not be funding them unless something in a fiduciary sense came to the table.
ACTING COMMITTEE MEMBER RUFFINO: Okay.
CHIEF EXECUTIVE OFFICER FROST: Yep.
ACTING COMMITTEE MEMBER RUFFINO: Okay.

That's -- got it. And we do have some, but I don't think it's appropriate in open session. Maybe we can ask in closed session.

To the accountability portion of this -- and I know, what if a potential Labor Principle violation is identified, you know, and it's got a good -- you know, it's got additional action for CalPERS current and future relationship with a manager and portfolio company? And I guess it could -- it was answered by the funding. Other than the funding, I'm looking for process. You know, I'm trying to understand the process. By the time, you know, we get workers coming to us or stakeholders or whatever and they say here's a violation, here's what we're experiencing, here's what the investment folks are telling us that they are not responsible. So then from that point, what's the process? I'm trying to get a little more clarity on that process.

ASSOCIATE INVESTMENT MANAGER SELLS: So when these issues are raised and brought to us by stakeholders, that is what triggers the step -- the five-step process, that's where we begin the work. And remember that when they bring these issues, they are potential violations at that time, right? We're trying to assess where there is actually a violation or whether practice could be leading to a potential violation at some point later down the line that we would need to monitor and watch for, so -- and I want to reiterate as well that sometimes managers bring us these issues directly as well. They're not always from stakeholders. I do think that once we get that systemic reporting in place for the Board, that will help mitigate some of the concerns around whether or not staff have been informed or already working on an issue. And then that will make sure that the Board has the most up-to-date information as well on these engagements.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank you. Thank you for that. And finally, and I think I share this with you, Tamara, last time that we did a briefing, that Labor Principles and Responsible Contract Policy. And a lot of folks out there I think they do not understand or they just use that interchangeably without understanding really that some things belong to the Responsible Contract Policy and do not belong. So I'm going -- you know, and I know we are going to be dealing with the Responsible Contract Policy as an action item later, so I will ask those questions a little bit later.

But again, you know, you're doing God's work. Thank you for everything that you're doing.

(Laughter).

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

COMMITTEE MEMBER WILLETTE: Thank you. I want to acknowledge I believe Director walker and Director Middleton were on before me, if you want to just take them first.

CHAIR MILLER: Oh, well, I've got -- yeah, I've give the notes from when they came on, so...

COMMITTEE MEMBER WILLETTE: Okay. That's fine. So I just want to again echo the sentiments of my colleagues. It's really -- I appreciate all the work that's gone into this and it's clear we've made a lot of progress since I've been on the Board. It's just been really astounding. And I want to acknowledge the staff work on this and say thank you.

I -- sorry if I'm repetitive on some of my colleagues. Just these thoughts I want to echo what Mr. Ruffino talked about on the accountability. I think -- I appreciate the nuance between potential violation and vio -- and what is an actual violation. But I think what we've seen is that what we really want to do, the Labor Principles aren't just to be held on the pedestal without -- as a policy. It's because we want to protect our fiduciary interest for our plan participants, right? We've got people out there working day in and day out and depending on a retirement from CalPERS at the end of maybe a 38-year career or longer, right? And so we want to make sure that CalPERS can mitigate their risk in our investments. And that's just kind of the foundation of all of this, right, all of this. And so we want to make sure that we can enhance returns in a sustainable, repeatable investment way.

The concern is -- you know, my concern is is that a potential a violation means maybe our -- even if it's not an actual violation of the labor principles, it could still mean a risk to our investment, right? And so I do think that the tracker or tracking mechanism would be really important. We want to change behavior. We don't want to just count how many people -- we don't want checklists, and even spreadsheets of like how many people sign an attestation. If they're not going to actually change the behavior, that is actually undermining our ability to pay our participants' retirements.

So I really just want to make sure that this is phenomenal work, but we just have so much. I feel like this is the beginning of a very long road to get to CalPERS being a leader that's going to benefit from being ahead of the curve. And I think from testimonies that we've seen, that it's really important. We know that some engagement does not work. We have recently received a letter from the UFCW about the Cardenas market situation. We've heard public testimony. Since I've been on the

Board, we've been hearing public testimony. And it seems -- this is like a really clear case that our investment partner is not in alignment with the risk that CalPERS is taking being invested.

So I really want to encourage partners to join us in implementing the Labor Principles at the point where we are no longer having this workforce risk. That's really really massive. And so I do -- you know, I do understand that our slides have to be really succinct, but it feels very -- having one bullet of like if a violation is found, there's a couple Of steps that will happen. I think we've really got to dig into that, you know, as an organization, so that we can ensure those participants who are depending on us doing something about their retirement, we can -- we can be accountable to them.

Thank you.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Next, I have Director Walker. Yvonne.

COMMITTEE MEMBER WALKER: Thank you. I appreciate this. And I just want to thank you, Peter and Tamara, for the work that you've done and that I know that you'll continue to do. This is not -- the Labor Principles are not something -- I don't think of them as we're going to develop a policy and then we just, you know, wash our hands and we're done, because this will be ever evolving as we go.

I also want to appreciate the fact that I recognize that there is work that you have done and are doing, you know, that we might never see, right, that you have stepped in and done. But I do want to make sure that I put this out there that I believe that the workers are an important part of a company. That's how the company -- you know, regardless as to what they're doing, they can't make money without their workers. And if workers aren't treated well, then that becomes for me a risk for CalPERS to invest in a company that is using and abusing their workers, because I don't think that that is sustainable.

And one of the things, and I brought this up at another meeting, and I'll continue to bring it up as we, you know, work through it, because it is a process. As we think about -- and I like all the engagement and everything else, but there really has to be something that says, and if they continue to violate and they continue to be the same bad actor, we have to seriously question are they the right place to put our members' money, right? Are they the right investment for our members money.

And I just -- I want to -- and I'm probably like a broken record on this, but I think it is something that is really important, that we always keep in the back of our minds. I am not necessarily a big person -- a big proponent of, you know, let's just put out boot on people's necks, but I am also a big proponent of people have to know that -- and pardon the expression, but they can't -- they can't fuck with CalPERS, right? And so -- and that we're serious about this. I think that Director Willette -- not Director -- my fellow Board Member Willette, you know, said it best, I think, that to make sure that we're not just creating something that looks pretty, creating a checklist. Let's not recreate like a Rooney Rule like the NFL did that it looked good on paper and they touted it out every time and it did absolutely nothing for what they were trying to address.

I don't think that's who we are. I don't think that's who we're trying to be, but I want to make sure that we're just keeping that in mind as we go forward.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Thank you. Next, I have Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And this will be relatively short. And Tamara, Peter, thank you for all of the work that you've done. To my colleagues, thank you for your commitment on these issues and I think it's really important.

There's theory out there that somehow or another in trying to talk about Labor Principles that we at CalPERS are trying to impose on organizations a political view. And I absolutely reject that. Going back nearly 50 years ago when I was in graduate school, one of the fundamental tenets that we were taught was the workplace environment has an absolute impact on production And effectiveness. And that has been true forever. And what we are doing here today is acknowledging that those workplaces that have the very best of labor practices are going to be the ones that are going to be most successful over time and we want to invest in those and we want to take and put what pressure we can on those organizations that defy those standards. And I am very proud of what we're doing here today. But this is not political. This is achieving a long-term financial result for our members.

CHAIR MILLER: Thank you. Very well said.

Next, I have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. I, too, want to join with my colleagues to thank Tamara and Peter on an excellent implementation process. I know there was a lot of deliberation to get to this point and I appreciate it.

I particularly will repeat something I said earlier in when we were talking about the information agenda item, the private equity, Ms. Middleton had another question about consequences I think. And I think that was very important that that becomes public when -- and so I'm sure it will be in your systemic reporting, but there should be as much as can be public, talk about there has been a reduction in commitment. There has been a decision to no longer work with a certain manager for whatever reason, because we need to hold everybody else -- make sure the accountability process is correct. But at the same time, that should not -- that's necessary, but it should not overlook the fact that this principle here -- Labor Principles are for our fiduciary duty to make sure that we don't have any kind of risk, whether it's headline risk or really strong violation.

So thank you very much for your work and thank you again and look forward to further reports.

Thank you, Mr. Chair.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you.

CHAIR MILLER: Okay. Next, we have Controller Cohen.

COMMITTEE MEMBER COHEN: All right. Thank you. Good afternoon, colleagues. It's been some time since I've seen you in this chamber. And hello to the staff. And to the members of the staff, my name is Malia Cohen. And generally, I am largely represented by Deborah Gallegos on this body, but this particular matter is incredibly important. I wanted to make sure that I was here to be a part of the conversation and hear firsthand.

And I want to first acknowledge, Tamara, Tamara.

ASSOCIATE INVESTMENT MANAGER SELLS: Tamara.

COMMITTEE MEMBER COHEN: Tamara and Peter for anytime you're doing any kind of policy work, it's challenging to solicit all the feedback, aggregate it, and then synthesize, and then find that happy medium point.

My question really has to do maybe along the lines of timeline in terms of implementation. If the item doesn't pass today or there needs to be more discussion, how does that impact the implementation of the policy? And you may have the question or, I don't know, you may have some thoughts as well on the question.

The other thing is is -- has there been any -- has there been any public input on this policy that we're here -- that we're about to hear today? I'm seeing heads nodding yes. And we've gotten some feedback from our -- for the interest parties?

All right. That sounds good.

And from the public, I hope the implementation of these principles will help alleviate a lot of the concerns that we hear on a constant basis.

What's the plan? We have a stakeholder that we are doing business with that is not -- that has filled out the survey and has promised to uphold to these Labor Principles, and they actually don't. What is our internal process? How do we correct the behavior? How do we end or terminate the relationship. What exactly does that part of the process looks like -- look like? Thank you.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. So it does -- since it starts with engagement, what we'd really be engaging is the managers receptiveness to making -- mitigating changes to mitigate that risk. So we will ask for mitigating actions to take place very early on. But to the extent that there's a pattern or very serious violation, then we will ask for a specific plan of resolution, the manager's risk mitigation, and any controls that they plan on putting in place.

And to Peter's point, if they've attested to our principles already, it just brings them back in line with you've already agreed to it --

COMMITTEE MEMBER COHEN: Um-hmm.

ASSOCIATE INVESTMENT MANAGER SELLS: -- so you need to have -- we need to see a defined plan to execute. If there's a pattern, if there's a lack of responsiveness by our manager, that's when we will then assess our current and future relationship with them on an ongoing basis.

Each in a sense is case by case, but if there's a particularly egregious violation, there will be an escalation or -- yeah.

COMMITTEE MEMBER COHEN: Um-hmm.

MANAGING INVESTMENT DIRECTOR CASHION: And even before the Labor Principles were in place, we were doing just that, because they were already in a way enshrined in our governance and sustainability principles. So we do have concrete cases where there have been clear implications for a manager not following these principles. And that -- the implication has been that we reduced funding and in some cases removed from pipeline.

I think more broadly, we're really also having an influence on the market. We've seen some of our asset managers appoint higher in place labor specialists to work directly with the portfolio companies and other stakeholders. We have managers who have come up with their own labor standards. So I think there's a really positive evolution and we've helped raise this as an agenda item.

COMMITTEE MEMBER COHEN: What are other plans doing? Are we unique in this space or are there other plans and funds that are also moving in this direction, because we're just like one entity on the -- a big one dominating force certainly on the field, but what are --

what are some of the other folks doing, because this is an important conversation and important standards to have clearly articulated.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you again for the question. So adoption of these principles started with our initial outreach with managers. We wanted to socialize it, get feedback from the managers as to how they might be able to get behind tease principles and better understanding their own policies and practices around Labor Principles. Then it kind of sparked conversations as well with our peers.

COMMITTEE MEMBER COHEN: Um-hmm.

ASSOCIATE INVESTMENT MANAGER SELLS: So we have started to see some of our peers take Similar or nuanced approaches with their own principles. Some of theirs are directly private equity specific. Ours cover all assets.

COMMITTEE MEMBER COHEN: Um-hmm.

ASSOCIATE INVESTMENT MANAGER SELLS: And so in addition to that, we do expect as part of ongoing implementation that we will continue to listen, engage, and socialize these principles throughout the market in an effort to push that industry forward. But there are nuanced approaches that we're seeing amongst our peers.

COMMITTEE MEMBER COHEN: But are you -- are there codified -- are there rules, do they have a document, do they have something drafted, do they have something already in place?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. Yes, they do and I'm happy to follow up with the links to those as well.

COMMITTEE MEMBER COHEN: Oh, okay. Back to you, Mr. Chair.

CHAIR MILLER: Okay. Thank you.

And finally, we have President Taylor.

VICE CHAIR TAYLOR: So this brought up more documentation. Sorry. So I -- I'm thinking and I don't know how hard this will be, but you talked about like serious cases. Do we want to put those -- I mean, we do it in some other reports like have a red dot above them, you know, these cases that they're very egregious and we can't get anywhere with them, you know, or pull them out entirely, right, like you have five of them, and then have a -- still working with them, not sure what we're doing here yet, but possible under -- whatever, underfunding, whatever. And I know we can talk more about this in open session -- sorry, closed session. So I want to make sure that we're looking. That the Board can see this too, because I saw in something else earlier last meeting that we are supposed to be receiving reports, right? But we receive reports. They're very general and they're not on any actual cases. And I think -- I think the Board -- because we get the calls ourselves, I think the Board is very interested in making sure we know what these cases are and to whom they --

CHIEF EXECUTIVE OFFICER FROST: So, Theresa, we will bring back, via Committee direction, that report that you referenced. It sounds like Tamara was a bit ahead on that as well.

VICE CHAIR TAYLOR: Yeah.

CHIEF EXECUTIVE OFFICER FROST: But we can also do this in, you know, that scorecarding format that you referenced, whether we see this as a, you know, single egregious issue. Is this an ongoing chronic problem, which might give it more of a red rating versus it's an intake.

VICE CHAIR TAYLOR: A green rating, yeah.

CHIEF EXECUTIVE OFFICER FROST: Right. So let us -- let us work through that and we'll bring back some ideas.

VICE CHAIR TAYLOR: Sure. Sure. And yeah, we appreciate it. So the last thing I'll say in reference to Controller Cohen's remarks, while there are others -- when I went to The White House, there were others that had started labor principles. It was almost always in private equity only. We are the only fund doing it in all asset classes and integrating it into all asset class. And I think that highlights our work and makes it even more important that we follow through, so that others can look at this and go, oh, we can do this too.

CHAIR MILLER: Yeah. And to follow up on that a little bit, I wouldn't take this specifically as Committee direction, but I think ultimately, we do want to see something a little more formal in terms of -- and because it's across all of our assets, which I really do want to emphasize, this covers the waterfront in terms of that process and that reporting. What are the steps? And it may very by asset class, or size of investment, or complexity, or whatever, but what I want to know is at what point does it require either any change in delegation or more specificity for when staff can basically pull the chain and stop the train or when it comes to us as a recommendation of a decision or options for us as a Board to say, okay, that's enough they're done, or they're suspending pending, or additional investment, or what those options are?

And because at some point, we need to get when things get to that -- you know, whether it's the red dot on the spreadsheet, get to a pretty expeditious decision that will reinforce to everyone that we're serious and there will be accountability.

CHAIR MILLER: Okay. I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you very much, Chair. Yes, I -- there was questions that came up from Controller Cohen and also from President Taylor. I just wanted to come back to -- back to the conduct the CalPERS stakeholder engagement process again. And the first item is identifying the issue. Now, I know where -- this is -- as President Taylor has mentioned, it is broad based for our -- for all the asset classes, but from what -- you know, from -- but in many cases a lot of the issues that are happening are in the private -- in the private equity area.

And I'm just wondering is if we -- when we get -- when we identify an issue, will we -- will we -- will we be able to like engage with relevant partners? Like let's say for instance the Private Equity Stakeholder Projects, those individuals bring in a lot of information that, you know, they seem to have a deep understanding. And I just wanted to know if that's also an avenue of resource that we can utilize to understand this, if you can elaborate more on that?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. Thank you for the question. Absolutely. We would be trying to source this information from all of the relevant stakeholders. They generally provide us with materials that we will review and dig into to determine what policy the issue particularly falls under or is in violation of -- potential violation of, I should say.

Also, the managers in their feedback and perspective is important as well to really drilling down on what the core issue is. Sometimes the issues are bundled with multiple things and we have to separate each one out to go one at a time.

COMMITTEE MEMBER PACHECO: Right.

ASSOCIATE INVESTMENT MANAGER SELLS: I will say that for stakeholders such as the Private Equity Stakeholder Project and the like, they provide us with really important information, even with their own research reports as well that helps inform the issue from a broader sense, so absolutely all of these inputs are used for us to really drill down and understand what the issue is.

Now, you did ask about whether or how we should partner with others and that's part of the assessment on the front end --

COMMITTEE MEMBER PACHECO: Yes.

ASSOCIATE INVESTMENT MANAGER SELLS: -- is trying to understand if we are going to be more successful individually or partnering with others. We have also had stakeholders provide us with lists of other investors that they've been engaging on the issue, which we find particularly helpful, because that gives us a starting point, if we do need to go out to other partners and see how they're also looking at and assessing the issues. So absolutely.

COMMITTEE MEMBER PACHECO: And then also, Mr. Cashion had mentioned that some of the -- some of the firms have been -- already have hired or they've hired a labor liaison or person. How has that -- how has that worked out right now? I mean what is your thoughts on that and do you field that's a -- that's a positive step?

MANAGING INVESTMENT DIRECTOR CASHION: Yes, very much so. It's also at center point if there's union or labor concerns for those groups to go to the asset manager, and interact directly with somebody who has that depth of experience and knows how to engage with the other parties. And for us, it's also very valuable because we can go to that same point of contact, along with our relationship manager at that asset manager.

COMMITTEE MEMBER PACHECO: Excellent then. So we do have -- there is -- there is this -- there is this infrastructure that's building out from all this?

MANAGING INVESTMENT DIRECTOR CASHION: Yes. I will caveat that there's not a lot of these situations.

COMMITTEE MEMBER PACHECO: No. Yeah.

MANAGING INVESTMENT DIRECTOR CASHION: This -- I was giving an example, which I think was a very positive evolution and step. We would certainly encourage -- if other managers follow suit, we would be -- that would be positive, but yeah, I think it will be case by case.

COMMITTEE MEMBER PACHECO: It will be case by case.

CHIEF EXECUTIVE OFFICER FROST: Yeah. And then I think Peter's other point earlier is there's a major private equity firm that has issued its own expectations for portfolio companies that it owns on worker principles. And I'll get that out to the Board.

COMMITTEE MEMBER PACHECO: Oh, very good then. Now, I look forward to that information. Thank you.

CHAIR MILLER: All right. Thank you. Well, I really appreciate the report and the review. And at this point, I'm looking forward to hearing from our public commenters. So --

MANAGING INVESTMENT DIRECTOR CASHION: Excuse me, Chair Miller. Before we close, I would just like to point out this was -- this was really a collective action across INVO. We had incredible support from within my team, Travis Antoniono, across the private markets, all the MIDs, Christine Gogan. And Legal was pivotal in this whole process, so Robert Carlin and Marté Castaños. So moving from policy to practice, as Controller Cohen noted, is not easy and it really takes some concerted work. So we're just very pleased to have participated and to be where we are today.

CHAIR MILLER: Yeah. Outstanding team effort. Thanks to everybody who was involved and onward and upward.

So at this point, we'll be calling public commenters. I'll be calling like three people at a time down -- come down to these seats on my left. You'll have three minutes to speak once you identify yourself and start speaking. And so I'll start calling. Let's see, I've got Susan Minato, Jordan Fein, and Rachel Sulkes.

Yeah and as you come down, you know, to the extent that you can avoid kind of repeating exactly what the person before you has said, if you're making similar statements, that would be appreciated. And you'll have three minutes when you identify yourself and start.

And -- there you go.

SUSAN MINATO: Good afternoon. My name is Susan Minato and I'm proud to serve as Co-President of UNITE HERE Local 11, which represents over 32,000 hospitality and food service workers in Southern California and Arizona.

We are extremely thankful to this Board, this set of amazing trustee leaders for your work on these issues related to both the Responsible Contractor Policy and the formulation and implementation of CalPERS Labor Principles. I offer you a case study. Over the last 11 months, 10,000 Southern California hotel workers have struck more than 170 times in the largest strike in the nation's hospitality industry.

As of May 22nd, so a little time ago, 45 hotels had resolved the labor dispute representing 74 percent of the unionized hospitality industry. Seven hotels operated Advent-owned Aimbridge still had not resolved the dispute, the largest number of hotels operated by a single firm.

So -- but as of today, 60 of 67 hotels have settled contracts in Southern California with the very first one settling in July of 2023. However, it should not have been this difficult and painful. Over the last 11 months, Aimbridge Hospitality dragged its feet, while our members struggled to win a fair union contract. Along the way, we saw extremely disturbing things. When they went on strike, the subcontractors brought in unhoused migrant workers from another state, including people living on skid row to replace them. They exploited these most desperate people to avoid their own worker demands for a living wage and stay safely houses.

As the LA Times reported, one of the migrant workers was a 17-year old high school student who skipped school to clean rooms at Aimbridge-operated Holiday Inn LAX, one of the striking hotels. Workers were also subjected to what we have alleged were unfair labor practices, and six women came forward with complaints alleging sexual harassment at work. In the end, we were able to sign new contracts and find resolutions to those sexual harassment complaints, but it should not have taken this long nor should it -- had it -- had it -- should it have occurred.

Despite all of this, CalPERS staff never publicly admonished Advent nor have they, to our knowledge, asked the firm what it will do to ensure that CalPERS Labor Principles are complied with going forward. Staff retains delegated authority to commit up to three billion in private equity funds without Board approval. For the principles to act as a deterrent against wrongdoing and to meaningfully guide behavior, there must be real accountability.

When companies violate the principles, it must not be ignored, otherwise the same practices, the same bad practices will continue and undermine investment returns in the future. We look forward to further engagement with Board members and trustees around both the Labor Principles and Responsible Contractor Policy and we encourage staff and legal counsel to meet with labor lawyers to develop a better understanding of the concept of labor piece, including the model that has been developed at LAX in Los Angeles, among other locals, which we continue to be -- believe is the best way for the fund to mitigate risks associated with labor disputes.

Thank you very much for your efforts. Appreciate it.

CHAIR MILLER: Yeah. Thank you for your comments.

JORDAN FEIN: Good morning. My name is Jordan Fein. I'm a lead research analyst with UNITE HERE Local 11. Appreciate the work of the Board and staff to put these principles forward. As Susan shared, Aimbridge Hospitality owned by Advent dragged its feet for 11 months before resolving the dispute in Southern California at many hotels. At this -- at the point that Susan referenced in May, hotels owned by CalPERS manager CIM, Goldman Sachs, Lone Star, Starwood Capital, Yucaipa Companies, and Cerberus had all reached contract settlements.

We asked CalPERS staff to publicly engage with Advent. They did not do so and the disputed dragged on. Advent-owned Aimbridge faced allegations that implicated CalPERS Labor Principles, including alleged interference with the freedom of association, the exploitation of unhoused migrants, and alleged employment of a minor, as well as alleged sexual harassment of women workers. Yet, despite these allegations and the information provided by Local 11, CalPERS staff provided no updates as to Advent's response.

Aimbridge dragged its feet for months and months to resolve these cases. And to date, as far as we know, Advent has provided no information as to the steps it will take to ensure Aimbridge, or any of its other portfolio companies, will take to ensure they do not repeat the problems that occurred over the past year. To use the language of the Labor Principles, neither Advent nor CalPERS staff have communicated any plan for risk mitigation and controls to prevent future issues.

So as hotel contracts expire in 22 other cities across the country this year, CalPERS remains exposed to potential human capital risks at Aimbridge Hospitality and at other hotels where CalPERS investment is made.

We encourage Board members and staff to hold firms that violate the fund's Labor Principles accountable and to include labor peace language in the fund's RCP to protect the fund from strikes that pose human capital risks. Appreciate your time.

CHAIR MILLER: Thank you.

RACHEL SULKES: Good afternoon. My name is

Rachel Sulkes. I'm a press secretary with UNITE HERE. Sadly, one of our speakers, Liz Tapia, was not able to get cell service so she's asked me to repeat her comments.

"My name is Liz Tapia and I'm proud to serve as the President of UNITE HERE Local 2, which represents 15,000 hospitality workers in the Bay Area. They are predominantly women and people of color and come from all corners of the globe. I'm here today in support of the continued work around the CalPERS Labor Principles. This summer union contracts covering 40,000 UNITE HERE members at 230 hotels across the U.S. and Canada are up for renegotiation in over 22 cities, including San Diego, San Jose, and San Francisco.

"This will be the first national contract fight in the hospitality industry since the recent resurgence of the labor movement, which saw record setting strikes in 2023. UNITE HERE members have won historic contracts after repeated strikes in Los Angeles, Orange County, and Arizona, and a city-wide strike threat at Las Vegas casinos.

"The hotel industry's gross operating profit was 26.63 percent higher in 2022 than 2019, but hotel workers report heavy workloads, loss of hours, and jobs that aren't enough to afford the cost of living. Workers are calling for the hotel industry to raise wages, reverse staffing cuts that have led to painful working conditions, and agree to protect guest services and amenities. Workers are fed up.

"Changes in the hospitality business mean that they are not just problems for workers, but also for institutional investors. In recent years, large private equity firms and real estate investment trusts has steadily bought up large portions of our industry. Advent International, Blackstone, and other firms regularly come to you for their investment capital. But when our members strike, boycott, picket or otherwise target these companies for industrial action, your investments could be at risk.

"The example provided by Advent International and its portfolio company Aimbridge Hospitality's prolonged contract fight with UNITE HERE Local 11 in Southern California over the last year illustrates how your investment dollars can become ensnared in labor disputes. This summer our members across the whole country are ready to fight for the wages, benefits, and respect they deserve. If companies do not come to the table, understanding that the game has changed, workers are not going to settle for less. I hope that CalPERS Labor Principles will assist the fund in avoiding risk as we head into a potentially tumultuous moment in the hospitality industry.

"UNITE HERE Local 2 is hopeful that the stakeholder engagement process and continued manager engagement will provide the fund with the tools necessary to avoid the risks to investments that come with potentially lengthy labor disputes.

"Thank you to the Board and staff for their work on these Labor Principles and I look forward to their swift and effective implementation. This summer, union contracts covering thousands of UNITE HERE Local 2 members in the Bay Area and a total of 40,000 workers in 22 cities across the country are expiring. I hope that CalPERS Labor Principles will assist the fund in avoiding risk as we head into a potentially tumultuous moment in the hospitality industry. Thank you."

CHAIR MILLER: Thank you.

I'll call three more, Ronald Bermudez, Maria Brambila, and Valeria Alvarez, if you would come down.

RONALD BERMUDEZ: Hello. Good afternoon. I just want to be noted. I took a seven-hour bus ride to speak with you Board members. My name is Ronald Bermudez. I formally work as a bellman. I actually am still a bellman at the Westin Bonaventure in downtown Los Angeles. I am a proud member of UNITE HERE Local 11.

These past two years, I actually worked as an organizer with the unions who represent workers like me at hotels all across Los Angeles. The Westin Bonaventure is operated by Aimbridge Hospitality, which is owned by a private equity firm Advent International. It is one of the largest hotels in downtown Los Angeles with over 1,300 rooms and over 600 associates. My mom and my brother are actually associates too for the Westin Bonaventure and my mother is a room attendant, and my brother is a laundry supervisor.

The reason why I'm here is because on June 30th of last year our union contract were set to expire at 62 hotels in our Southern California covering more than 15,000 union members. Understanding what a large-scale protracted labor dispute could mean for their business, the Westin Bonaventure was the first hotel to listen to the worker and settle a fair contract. I remember feeling so proud that my hotel had been the first to give workers what they deserved. I remember being in the cafeteria celebrating with them like just knowing that sí se puede.

And I believe that when we approve our contracts, we show that we can make the changes for ourselves. We have a voice and the company will listen to us. I know that the improvements to the pension and health care at the Westin will benefit workers like my mom and their -- all the mothers and fathers in the hotels who have put their lives into making this hotel successful.

I am thankful that Aimbridge Hospitality accepted the fair contract at the Westin Bonaventure, but I don't understand why Aimbridge held out for 11 months and many other hotels. In the end, all the hotels got the same contract. What was the point of Aimbridge fighting us for so long? Was it for -- was it good for their business? Was it good for you as an investor? As an investor with a company like Advent International and Blackstone that own and operate hotels all across the country, you should think about how these investment firms can avoid strikes and the headline risk that come with the labor dispute, such as the violence in the picket lines.

Protecting your investments is important for the union members you represent. You should make sure companies avoid the risk by implementing tools like labor peace in your contract with your investment managers. The Westin Bonaventure shows that avoiding strikes and protected labor disputes is good for workers, good for business, and good for investors.

Thank you for your time.

CHAIR MILLER: Thank you.

MARIA BRAMBILA(through interpreter): Good afternoon.

THE INTERPRETER: Sorry. I'm going to be

providing translation. Thank you.

MARIA BRAMBILA(through interpreter): Good afternoon. My name is Maria Brambila. For the past 12 years, I have worked as a housekeeper at the Holiday Inn LAX, another hotel that is operated by Advent-owned Aimbridge hospitality. I'm a proud member of UNITE HERE Local 11.

When we started to organize for our new union contract at the Holiday Inn, I knew we needed to win higher pay, because everything is getting more expensive. I also wanted to win improvements to our pension, so I could think about retiring in the future. But more than thinking, I wanted my hotel to value us as workers to treat us with respect.

Unlike the workers at the Westin Bonaventure, my co-workers and I had to fight Aimbridge for almost 11 months for a fair contract. We went on strike five different times telling customers and members of the press about how Aimbridge was failing to listen to us and provide what we need to survive. We launched a boycott of our hotel and other Aimbridge hotels that continued to ignore us.

As has been reported in the LA Times, Aimbridge used migrant refugee workers to break -- to try to break the strike at our hotel. The district attorney announced an investigation. They've also faced a federal and fair labor practice charge alleging that the manager of my hotel warned the same unhoused workers not to tell anyone about their pay or other working conditions among many other charges.

When I learned that Aimbridge had finally agreed to settle our contract, I was jumping up and down and crying. I was so happy. We achieved a great victory for ourselves and our co-workers, but it cost us so much. I felt like Aimbridge made us suffer. They made us go through many things trying to wear us down. I'm glad that Aimbridge finally settled fair contracts at my hotel and the other hotels, but the strikes, boycott, news coverage, unfair labor practice charges, allegations of sexual harassment, and legal charges were all preventable.

I think CalPERS needs to do a better job of making sure that companies that you invest your money in treat workers properly and avoid the kinds of terrible strikes and labor disputes that we have been through.

Thank you.

CHAIR MILLER: Thank you.

Next, we have Jared Gaby-Biegel, and Azucena lara, and then we'll have a couple on the phone. And if anyone needs the translators, as you see, we'll give you an additional three minutes.

COURTNEY ALEXANDER: Do you want Valeria to go?
CHAIR MILLER: Sure.
COURTNEY ALEXANDER: You called her.
CHAIR MILLER: Yeah. Let's see, yeah. I'm -- yeah, let's -- the name is on my list, so any order you want to go now that you're up there. Someone can jump in.
COURTNEY ALEXANDER: So I'm going to translate for Valeria. My name is Courtney Alexander.
VALERIA ALVAREZ(through interpreter): Good afternoon, Chair and Board members. My name is Valeria Alvarez. I've already told you my experience of suffering sexual harassment, while working at two different Cardenas markets owned by Apollo Fund IX in your investments. I'm coming back today to tell you that I have since filed a lawsuit against Cardenas markets alleging claims under California's Fair Employment and Housing Act claims of Sexual harassment, retaliation for reporting sexual harassment, failure to prevent retaliation and wrongful termination.
You may remember that I filed an EEOC complaint in March 2023. A month later, Cardenas fired me. The EEOC found that Cardenas terminated the store manager from his job after the company investigated my sexual harassment allegations against him. The EEOC dismissed my complaint and issued me a right-to-sue letter. I

shouldn't have to do all of these steps to be treated with dignity and have my rights at work. I think it's important to speak up about what happened to me, so it doesn't happen to others at Cardenas Markets.

My co-workers at Cardenas Markets should be encouraged to report sexual harassment, but instead they watched me be terminated. I don't believe Apollo is living up to your Labor Principles and I hope you will enforce them.

Thank you.

CHAIR MILLER: Thank you.

Next.

JARED GABY-BIEGEL: All right. Thank you. Good afternoon, Chair, members of the Board. My name is Jared Gaby-Biegel, a researcher at the United Food and Commercial Workers International Union.

UFCW believes Apollo Global Management is violating CalPERS Labor Principles at Cardenas Markets and creating potential labor risks for your investment in Apollo Fund IX, to which you have committed $550 million. We outlined in a recent letter to the Board specific examples of Cardenas labor record, which we believe violate four out of five of your Labor Principles. In brief, Cardenas has settled three class action lawsuits in the last three years alleging violations of the California

Labor Code at a cost of $10 million, including one just settled in March. Cardenas did not admit wrongdoing in these settlements.

We believe that these complaints are examples of Cardenas not complying with CalPERS principles entitled quote, "The elimination of all forms of forced or compulsory labor or safe and health working environment." In addition, UFCW Local 1167 has filed three unfair labor practice charges with the National Labor Relations Board alleging violations of workers' rights to take concerted action. We believe these ULP charges constitute failure to comply with CalPERS freedom of association principle.

Further, you will hear and you have heard today, and over the past year, from workers whose experience -- experiences illustrate that Cardenas is in violation of your Labor Principles. A couple workers planned to come to give comment in person, however, they did not get their schedule for this week until yesterday, so they cannot plan ahead. We hope at least a few of them will be able to call in a little bit later.

As Ms. Alvarez stated, she has filed suit against Cardenas Markets over allegations of sexual harassment after receiving a right-to-sue letter from the EEOC. Jennifer Diaz de Monsterosa has testified to you that her hours were cut after reporting an injury. Rosalvo

Martinez testified she was asked to take a drug test and a pregnancy test when she was ill at work. Patricia Gutierrez testified that she had to work in the bakery for a couple months with no air conditioning.

These examples contravene your labor principles on elimination of discrimination and a safe and healthy working environment. Just last week some workers at a store reported being told in the store meeting that there has never been a union at Cardenas in 40 years, which we believe violates your freedom of association principle.

We support CalPERS effort to implement your Labor Principles in private equity investments. We believe Apollo is an example of why you need them and that this case compels the Board to establish consequences for investment managers that fail to uphold them. We understand CalPERS has engaged with Apollo over the last year. And for our part, UFCW has attempted to resolve these labor risks at Cardenas as our letter to you details. Our leadership met with Apollo in good faith last fall only to be told by Apollo that it can't force Cardenas to resolve its labor issues

Apollo's co-head of private equity, Mr. David Sambur reiterated that point in his April 30th, 2024 letter to UFCW's President where he said quote, "Each of our portfolio companies operate independently and management is responsible for decisions surrounding day-to-day operations, and in this case store level operations. While we believe this is an abdication of responsible -- this abdication of responsibility runs contrary to Apollo's control model of investment and belies it's super majority ownership and control of Cardenas equity, it also put in writing that Apollo will not uphold your labor principles at Cardenas.

Conversely, we have seen Apollo take the right steps to resolve labor risks in different Fund IX portfolio companies, the Venetian Casino in Las Vegas, where a negotiated neutrality agreement that guaranteed workers right to freedom of association. We think a similar agreement is the only way to resolve Cardenas labor risks to your investment.

We ask the Board to use its Apollo -- Apollo's Cardenas example to delineate accountability steps when you engage -- when your engagement process fails to produce compliance with your labor principles. If Apollo maintains its position that it cannot manage risks and enforce the Labor Principles at Cardenas, than in order to enforce your Labor Principles across private equity, you should reevaluate investing with Apollo in the future.

Thank you for your commitment to the Labor Principles.

CHAIR MILLER: Thank you.

And next, I have Valentina Dabos.

VALENTINA DABOS: Good afternoon. I'm Valentina Dabos with the Private Equity Stakeholder Project. It's nice to see you all again. We appreciate CalPERS leadership in adopting Labor Principles and the update on its implementation. Other investors are increasingly seeing the need for such policies, such as the policy announced in April by the New York State Common Retirement Fund. These policies have become necessary as private equity has grown to employ 12 million employees through portfolio companies across nearly every sector of the U.S. economy.

As a watch dog on the private industry, our research has found unsafe working conditions, wage theft, abuse, and anti-union behavior by private equity owned portfolio companies. The private equity industry's own efforts purporting manage human capital have been grossly inadequate and those failures have exposed investors to financial and reputational risks.

As CalPERS engages with private market managers to ensure compliance with your policy, we want to note the importance of consistent enforcement due to ongoing labor injustice. Two weeks ago, we sent an investor alert regarding individual Z Video Relay Services, ZVRS, call centers dedicated to providing American Sign Language translation to the deaf and hard of hearing to ensure access to services such as 911 operators, doctors, attorneys, teachers, family and friends. ZVRS is owned by the private equity firm Kinderhook Industries through a continuation fund where the lead investor is Carlyle's subsidiary AlpInvest. CalPERS invested 500 million in AlpInvest's secondaries Fund VII in 2021.

Two ZVRS call centers were closed suddenly in January. And employees claim that the call centers were closed after management found out that they were meeting with CWA, a labor union. We've reached out to Kinderhook and AlpInvest multiple times regarding these issues, but neither firm has responded. CalPERS should review these investments and communicate with the private equity firms to ensure their investments are not being used to violate workers' rights to freedom of association.

Thank you.

CHAIR MILLER: Thank you. And do we have any calls on the phone? I think we had a couple.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman Miller. We have Andres Oliveira to speak to Item 5e.

ANDRES OLIVEIRA: My name is Andres Oliveira and I'm CalPERS plan participant and a proud member of SEIU 521.

My co-wokers and I are grateful to the entire CalPERS team for the work you do to help ensure that we have a secure retirement. I'm calling today to speak in support of the CalPERS Labor Principles.

I work as a janitor at Santa Clara County's O'Connor Hospital. I can tell you from own experience and those of colleagues that when workers are respected on the job and have a voice on the best way to do those jobs, they do better work benefiting their employers and the people they serve.

I know CalPERS has investments in real estate, where people do similar janitorial work that I do. CalPERS has a long history through its Responsible Contractor Program of respecting the values cleaners provide to ensure buildings are maintained and employees can do their work in a more productive and effective way. Without those janitors, the business in those buildings won't prospers and the (inaudible) of the building is at risk.

CalPERS also has investments in health care industry. Workers who provide care and sanitation are the best source of data to anyone wanting to understand how the health care facilities really works and whether it has business practices that will ensure patients are cared for, families are confident in the care of their loved ones, and the facilities are well maintained and in good condition when needed.

This is the true in a publicly owned hospital, like the one where I work, but it's also truly in front of their owned medical facilities, which CalPERS invests in. Ensuring workers don't have to face employer harassment, discrimination, and safe working conditions, jobs securing, no threats to their rights to collectively bargain are good practices for any business that wants to stick around for the long term.

I really appreciate the CalPERS leadership in understanding this and help ensure my colleagues and I retirement security by protecting workers who work at the companies you invest in.

Thank you so much.

CHAIR MILLER: Thank you.

Do we have any other callers?

STAFF SERVICES MANAGER I FORRER: Yes, next we have Yvette Simon also to speak on Item 5e.

CHAIR MILLER: Go ahead.

STAFF SERVICES MANAGER I FORRER: Go ahead Yvette.

YVETTE SIMON: Members, my name is Yvette Simon. I'm a CalPERS plan participant and a member of SEIU Local 521. I want to thank the CalPERS team for the work you do on behalf of all CalPERS participants so we can retire with dignity. I work as a Vault Room Worker at the Santa Clara Valley Transportation Authority. I'm calling in the meeting today to let you know that my co-workers and I fully support CalPERS team's effort to (inaudible) in the fall of 2023. Workers are what make institutions go. If we have respect, rights, and opportunity on the job, we are positioned to do our work more effectively and to help the institution thrive. This is true at Santa Clara Valley Transportation Authority. In the past, we've had our issues, but they are working on it. So (inaudible) makes it all go to maintain the trains, to ensure they run on time, to make sure information is posted to the public, that they can access the trains more easily, to organize the administrative needs of the institution, collecting the revenue, to managing the vault room like my colleagues and I do.

A healthy workplace where all are respected and valued is key to doing -- is key to doing our best work. I believe that CalPERS Labor Principles sets the standard that ensures the places we invest in recognize the value of their workers. This in turn will help these companies recruit, retain great employees and position themselves for success as well as be accountable for how they treat their workers. And investing in companies for the long term success is exactly what CalPERS needs to generate sustainable returns to help secure generations to come.

Thank you for your efforts today. As a plan participant counting on you, I very much appreciate it. Thank you for your time.

CHAIR MILLER: Thank you. And our final caller.

STAFF SERVICES MANAGER I FORRER: Yes. Chairman Miller, we have Maria Rodriguez from the United Food and Commercial Workers for 5e.

MARIA VALENTINEZ: Good afternoon. My name is Maria Valentinez and I'm interpreting for her.

MARIA RODRIGUEZ(through interpreter): Good afternoon. My name is Maria Rodriguez and I have worked at Cardenas Markets in Coachella, California for 10 years. I want to talk to you today, because we really need Apollo to (inaudible) at Cardenas, so we can have a stable life. I love my job and I really enjoy serving clients. Unfortunately, Cardenas (inaudible). They also have us waiting on the work schedule, so we started on Monday. And Monday's schedule will be possible. It was very difficult to make a life outside of work without knowing what my work schedule would look like. It went on for about a year. (Inaudible) talk to the store manager. I do not believe that Apollo is (inaudible) the Labor Principles at Cardenas Markets, so I ask you to make sure that Apollo respects them, so that my co-workers and I exercise our rights and do our best work for your investment. Thank you.

CHAIR MILLER: Okay. Thank you. Thank you, everyone for their patience. And apologies and appreciation to our transcriptionist for -- I didn't intend to let it run on for so long, but I will do better trying at tracking the time or having staff come over and give me a smack when I go over this long without a break.

So we'll break for lunch and we'll be back at 2:15. Thank you, everyone, and than you to all the participants who commented.

(Off record: 1:31 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 2:16 p.m.)

CHAIR MILLER: Okay. I'm going to reconvene the Investment Committee. We'll come back to order.

We concluded our information agenda items and I guess that brings us to 6, our action agenda items, starting with 6a, asset liability management mid-cycle review, affiliate funds.

(Thereupon a slide presentation).

CHIEF EXECUTIVE OFFICER FROST: All right, I will invite Christine Reese to the presenter's panel.

So this agenda item provides information to support the request of the Board to update the capital market assumptions, approve the recommended portfolios for each affiliate fund as the policy portfolio, and approve the Health Care Fund liquidity benchmark as recommended by Wilshire, your Board consultant.

And i'll turn this over to Christine.

INVESTMENT DIRECTOR REESE: Great. Thank you Marcie. One moment, while I'll figure out the PowerPoint advancer --

Okay. Great. Thank you.

Good afternoon, Mr. Chair and members of the Committee. Christine Reese, CalPERS team member. I'm happy to be here today to present the asset liability management mid-cycle review and recommendations for certain affiliate funds. Before we get into the presentation, I would like to take a moment to acknowledge team members in the Investment Office, Actuarial Office, Financial Office, and the program teams for their collaborative partnership and contributions to this body of work.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: To get started, in this ALM mid-cycle review, we are presenting recommendations for capital market assumptions, policy portfolios, and associated benchmark updates for, like as I mentioned, certain Affiliate Funds. An important and foundational element of this analysis is that the objectives, methodologies, and processes utilized are the same for both the Public Employees' Retirement Fund and the Affiliate Funds. As an example, while the CMAs presented herein are for asset classes that are specific to the Affiliate Funds, the CMAs are generated from the same survey process that's used for the PERF.

The recommendations presented are a mix of maintaining the current portfolio for some of the funds and for others making some allocation changes that result in a reduced risk return profile.

For the body of the review, I'll cover background about the affiliate trusts included, the mid-cycle objective and portfolio inputs, and the portfolio results and recommendations. At the end of my presentation, I'll invite Wilshire up for a few words, after which we can turn to any questions the Committee may have.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So there are six affiliate funds in this review. The first is the Health Care Fund. This is a reserve fund for our self-funded health care plans. There are no defined cash flows and withdrawals occur based on the needs of the Health Care Program, which during the years post-pandemic have been high. The next three funds are defined benefit, the Legislators' fund is closed. It's cash flow negative and it has no active participation. The fund is invested in five asset classes with a moderately conservative investment strategy.

The next defined benefit fund, the Judges' Fund, is also closed. This is a pay-as-you-go fund funded through the State. The part that we invest is a reserve to ensure that we can make payments for two to three months for benefits if there happens to be a budget delay in any particular given year. This fund is invested in short-term cash equivalents.

The next fund, Judges' II, was opened when the

Judges' Fund was closed. It's a relatively young program and it's cash flow positive. This fund is also invested in five asset classes and has a moderately aggressive investment strategy.

The next two funds are pre-funding trusts, the California Employers' Retiree Benefit Trust Fund, also known as the CERBT. This is a program for employers to voluntarily contribute and prefund their other post-employment benefit liabilities, as in retiree health care premiums. This fund offers employers three different strategies with distinct risk return profiles, again using five asset classes and the strategies are moderately aggressive, moderate, and moderately conservative.

The last fund presented today is the California Employers' Pension Prefunding Trust Fund, this is a program for employers again to voluntarily contribute and prefund their future pension payments. This fund offers two strategies, again two different risk return profiles, one being moderate and the other being conservative and we invest in four asset classes.

So those are the funds that are included. The two that are not are the Long Term Care Fund, which will be brought forward in September, and the supplemental income plan target date funds, which are on a four plus year glide path, and those funds will be brought forward in the next full ALM.

So next, I'll cover our mid-cycle objective and portfolio optimization inputs.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So this slide might look familiar. It was presented during the PERF review. So the objective of the mid-cycle review is to provide an opportunity to evaluate the current capital market assumptions against the current strategic asset allocation to determine if there are any changes that might be beneficial to the portfolios. The actuarial assumptions and discount rates remain unchanged for this review and will be evaluated in the next full ALM.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: A primary input to the portfolio optimization process is the set of asset class expected returns. And pages five and six show these expected returns for a 20-year and a five-year time horizon. The blue box is the range of current survey outcomes. The blue dot is the current expected return and the orange dot is the expected return from two years ago.

What we see is that the expected returns for fixed income have risen while equities remain constant. This is consistent with rise in interest rates that we've seen during the last couple of years. And this pattern that we see for the 20-year holds for the next page for the five-year investment time horizon as well.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Another important input to the portfolio optimization is a set of asset class constraints. These assist with diversification and provide balance in the optimization to potential overallocation to a single asset class that has a high -- you know, high return, low risk. So we want to make sure that each portfolio isn't overallocated into any one particular segment, so we set constraints.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So those are the inputs. Moving on to the actual -- well, those are some of the inputs. Moving on to some of the specific portfolio reviews and recommendations for each fund. In developing the recommendations, we focus on balancing risk and return to provide a portfolio that matches the fund's investment profile.

So we'll start with the Health Care Fund. This fund is currently invested in bonds. Due to the increased usage of the reserve during the last two years, our recommendation is to move into short-term cash equivalent securities. And this is shown as Candidate A and as compared to the 2022 values and the current portfolio values. Shifting to Candidate A will reduce risk. And although the five-year return is reduced to 3.9 percent, current short-term rates are actually above five percent.

On the right-hand side, we have the Judges' Fund. This is the small reserve for the two to three months of benefits. This has historically been invested in short-term cash equivalents and our recommendation is to maintain that allocation. The current 20-year projected return on that is 3.2 percent, which is much higher than we've seen over the last, you know, 10 years or so when interest rates were very, very low.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Moving into the Legislators' Fund, this again is a cash flow negative fund with no active participants. And there's a very high reliance on investment earnings. We have two candidate portfolios, A and B. Candidate A is optimized using the same drawdown risk level as the current portfolio. And this produced a very similar portfolio to the current, and so we don't recommend it. There's no reason to make any changes if they're both very similar.

We then optimized on a lower return, which is 30 basis points above the discount rate to produce Portfolio B. This provides an expected return of 4.8 percent and substantially less risk than the current portfolio.

Portfolio B here is our recommendation and this is supportive of the discount rate of four and a half percent and a current funded ratio of a hundred percent.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Looking at Judges' II, a cash flow positive fund, we followed the same process as we did for Legislators in producing a Candidate A and Candidate B portfolios. Here, we also recommend Candidate B. And this has a very slightly lower expected return of 6.3 percent versus 6.4 percent for the current portfolio, but lower risk. And the expected return is supportive of the discount rate of six percent and a funded ratio of 99 percent.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: For the prefunded programs on the next several pages for both CERBT and CEPPT, wherein the employer participants have a choice of investment strategies, we evaluated the current portfolio just against a Candidate A optimizing on current risk. And again, the result were very similar portfolios. So for these trusts, where there's a choice of investment strategy, our recommendation is to maintain the current portfolio. All of these current portfolios have higher expected returns and lower expected risk compared to the 2022 full analysis.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So in closing, the recommendations are: to adopt the CMAs, which are shown in full on pages 17 and 18, so that includes the returns, volatility, and correlation; to approve the recommended portfolios for the Health Care Fund, that would be Candidate A; for Legislators' and Judges' II, that would Candidate B; and for Judges', CERBT, and CEPPT to maintain the current portfolios. We are also recommending to approve the benchmark for the Health Care Fund as it -- if it moves into the cash equivalents, which is the same benchmark that we currently use for the Judges' reserve.

And if the recommendations are adopted, we will implement the allocation changes at the end of this month. The changes aren't -- they're not -- they're not so large that we can't effectuate this change very quickly and very easily. And then we will also update our investment policies in alignment.

So at this time, I'd like to invite Wilshire up to have a few remarks. I believe Steve Foresti is with us.

MR. FORESTI: Good afternoon.

Am I on?

Okay. Steve Foresti, Wilshire Advisors. You know, not a whole lot for me to say. I think Christine did a phenomenal job kind of stepping through the recommendations. So we're -- the process, very comfortable with it. The survey used to put the capital market assumptions together is exactly the process that we all recently went through in doing the mid-cycle review for the PERF. The same sort of risk dimensions were analyzed here in terms of looking at return against drawdown risk, but also keeping an eye on just standard deviation or volatility.

What I'd call out, and I think this is precisely what the mid-cycle review is intended to do, is to look at the capital market environment as we kind of collectively through the prism of the survey see it, and see if any adjustments to the current allocations would make sense, whether that's to enhance return or manage risk. And embedded in what Christine laid out across the portfolios is either the same or a reduced risk portfolio.

And, you know, not only are we comfortable with that, we actually advocated for some of those risk reductions. When Christine stepped through the capital market assumptions on pages five and six, it really jumps out at you how much things have changed from two years ago when the full cycle review took place. And the narrowing of the spread between the higher returning equity, like growth-like investment opportunities and the more stable fixed income assumptions. So that presents an opportunity for some of those allocations that -- where risk was pushed out two years ago to bring that back down a little bit. And that's what's embedded in the recommendations you saw certainly for the Judges' II Fund.

The Health Care Fund moving to a hundred percent cash makes sense as well, based on the objectives and what the yield curve and the return opportunities look like there. I should call out that in terms of the benchmark recommendation, Wilshire would recommend there using the same benchmark that's used in the Judges' I fund, so that would be the three-month treasury index. But with that, I'll, you know, be happy to take any questions, but we're completely comfortable and think that the -- step through the process and came with a recommendation that delivers exactly what should be going on during a mid-cycle review.

CHAIR MILLER: Okay. Thank you. I have a few questions here. We'll start with Direct Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. I have several questions regarding the Health Care Fund. The first one is just a clarification on page three, when it says participation, State of California, does that -- I just trying to understanding. Does that mean the whole -- all our -- that means everybody in program that we represent, right? I mean, it doesn't mean

State of California employees only or anything like that?

INVESTMENT DIRECTOR REESE: It does. It's probably not the best description there. So we can look to update that. But, yes, it's --

COMMITTEE MEMBER RUBALCAVA: Okay.

INVESTMENT DIRECTOR REESE: -- meant to represent that -- you know, it's single fund. It's a single reserve fund meant to cover the entire health care program, which CalPERS runs.

COMMITTEE MEMBER RUBALCAVA: Thank you for the clarification, because I had briefing with Wilshire and I wasn't -- you know, they weren't sure, but thank you. I should have asked you.

INVESTMENT DIRECTOR REESE: Yep.

COMMITTEE MEMBER RUBALCAVA: And then on the -- my other question is we're doing a -- quite a change here on the -- from -- what is it, from a hundred percent bonds to a hundred percent cash equivalents. I understand, based on the presentations and from Tom said is because of the cash flow. I mean, we need to have a very liquid -- we have very liquid weeds as I'm sure -- yes, because of the -- and mostly -- when we say self-funded, there's another -- there's another clarification. It doesn't say it, but we mean the PPO plans, correct?

INVESTMENT DIRECTOR REESE: That's correct, yes.

COMMITTEE MEMBER RUBALCAVA: Okay. I just want to make sure.

INVESTMENT DIRECTOR REESE: Yep.

COMMITTEE MEMBER RUBALCAVA: I understand -- and then the final question I guess is -- or there's two more things. The benchmark that was suggested, recommended by Wilshire, is a three months treasury. So given all the activity in the economy, are we okay with that or how soon will it -- how often does it have to be relooked at this benchmark?

MR. FORESTI: I don't think it's something you need to look at often at all. It's going to stay representative for what those assets are -- how they're going to be invested, no matter what happens to short-term yields. So let's -- I'll just come up with a hypothetical. Let's say the Fed goes into a tight -- a tightening cycle here in the next -- or losing cycle, they bring rates down, over the next six, nine, 12, 24 months, that would not -- there would be no reason to change the benchmark, because the benchmark would reflect those lower yields as would the investments in the portfolio.

COMMITTEE MEMBER RUBALCAVA: Okay. Good. I appreciate that clarification.

And the other thing that struck me, I mean, the whole memo talks about how the projected returns for portfolio have increased, but yet the risk has decreased. So that's a very, very good thing. And I guess for this plan, the Health Care Fund, we're assuming there will be a lower return of 0.5 percent, half a percent. But I guess in exchange, it's a very good prudent decision. We're almost eliminating the risk, so -- I wouldn't say, unless Wilshire or somebody tells me, that is what's happening, right? That is a very good thing.

INVESTMENT DIRECTOR REESE: That's correct. Our goal was to essentially -- even though bonds have lower risk than equities, that they do have risk. And so our goal was to really take that risk off the table and invest in very short-term investments to increase the liquidity availability for the fund for any additional cash withdrawals that are needed.

COMMITTEE MEMBER RUBALCAVA: Thank you. And since we want to make sure we are -- we have the cash on hand to pay the claims, this is a very good proposal and recommendation. And I really commend staff, you and Wilshire for coming for -- well, staff for coming up with this proposal and for Wilshire for coming up with a benchmark. So thank you very much. Thank you, Mr. Chair.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Mr. Chair. And thank you, Ms. Reese, for your presentation as well. My question is more broader. And I said -- like during the -- after reviewing all the material, like during the next full cycle of the affiliated funds AML[sic] review, do you have a roadmap in place perhaps to include additional classes -- asset classes in the portfolio model?

INVESTMENT DIRECTOR REESE: That is something that we are assessing in advance of the next full ALM cycle. So, for example, one of the areas that we want to explore is is there an opportunity for any private assets within any of the affiliate funds. For some, there might be a case to be made that it's appropriate and for others not, but it's definitely something we're exploring now well in advance of the full ALM.

COMMITTEE MEMBER PACHECO: Okay. So that is in the -- that is on the roadmap.

INVESTMENT DIRECTOR REESE: It is.

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

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Thank you. I think you answered my question, but let me ask it again. The -- on page eight, it's the 0.4 volatility. What's driving that low volatility?

INVESTMENT DIRECTOR REESE: Yeah. So the low volatility is based on the investments that are considered cash equivalents are very short-term investments. So think about CDs, time deposits, treasury bills, and so forth. And those assets have a much lower volatility around their expected return than equities and longer dated fixed income investments.

COMMITTEE MEMBER PALKKI: Thank you.

CHAIR MILLER: Okay. I'm not seeing any more requests from the Board to speak. And thanks for the presentation, all the work that went into it from the team and everyone. And before I entertain a motion, we have a few public commenters on this item.

And so I'll call them down. J.J. Jelincic, Dareon Chambers, and John Dalrymple, if you'd come on down. When you introduce yourself and begin to speak, the time will start to be counted. You'll have three minutes each to speak. And you have the floor, sir.

J.J. JELINCIC: J.J. Jelincic, beneficiary. When you did the mid-cycle review for the PERF, I in -- you decided to take on more risk. I actually argued against it unsuccessfully. But I noticed that this mid-cycle review, you're not only not taking on more risk, you're either retaining the same risk or seeking lower risk. And I just want to say it's kind of nice to have been heard for a change. Thank you.

CHAIR MILLER: Thank you.

Next, we have Dareon Chambers. Are they in the room or on the phone?

Okay. John Dalrymple for item 6a.

Okay. Well, there will always be another opportunity.

So with that.

COMMITTEE MEMBER PACHECO: I'll move it.

CHAIR MILLER: Moved by Mr. Pacheco.

VICE CHAIR TAYLOR: Second.

CHAIR MILLER: Seconded by President Taylor.

Any further discussion?

Okay. I'll call for the questions. Roll call.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Aye.

BOARD CLERK ANDERSON: Deborah Gallegos?

ACTING COMMITTEE MEMBER GALLEGOS: Aye.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

BOARD CLERK ANDERSON: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK ANDERSON: Nicole Griffith?

ACTING BOARD MEMBER GRIFFITH: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK ANDERSON: Dr. Gail Willis?

CHAIR MILLER: Okay. The ayes have it, but I'll be happy to recognize Dareon Chambers and John Dalrymple if they wanted to comment.

JOHN DALRYMPLE: My apologies. We were outside.

CHAIR MILLER: No worries. Come on down have the seats. You'll have three minutes to speak. Your time will start when you introduce yourself and begin. And yeah, you have the floor.

JOHN DALRYMPLE: I appreciate you allowing us to make a comment just to share with you. So my name is John Dalrymple. I represent about 20,000 construction workers, electrical, plumbing sheet metal workers, iron workers, and a few other. For the last 15 years, I've tracked residential project, literally hundreds of them in many jurisdictions. Many of them have been built with funds that you have distributed to groups like CIM. So I brought with me a couple of graduates from a pre-apprenticeship program that's based in Oakland. And because these ultimately, when you think about what kind of conditions you place on the distribution of your funds, these folks are who are impacted, and what kind of opportunity do you create.

So this is really for us, like in Oakland, a story of two different types of -- two different -- how it plays out in a couple of different ways. Intercontinental real estate is also builds residential towers, as does CIM. They're proposing to build the biggest tower in Oakland. Of course, you've given hundreds of millions of dollars, maybe over a billion or more dollars to CIM over the years. Intercontinental real estate has built two towers -- has built one, and is about to build another. Every single one of those construction workers will be paid family supporting wages and will have apprenticeship for all the trades. It's a -- they use commingled funds from a variety of trust funds. That's how they finance these towers, very similar to CIM.

CIM, we could not get a call returned to talk about how they did -- how do they -- we got a call returned, but we couldn't get a meeting to talk about how they will -- how they will provide opportunity for folks like are sitting here with me. And they wouldn't set that meeting up, if felt they like it was important to organizations like you. And I understand at this point, you certain constraints about the kind of leverage you have. But I would hope that, you know, we've -- over the -- over -- that we begin to change that, because literally, you know -- you know, there's a few thousands of folks who are graduating from these pre-apprenticeship programs that have a need for work. And the choices you make about how you attached conditions to your funds determine whether or not once they've been offered hope and opportunity, whether it's realized, and they have real jobs behind that promise.

One, Intercontinental real estate is going to provide that. CIM has built in Oakland and not provided that. So, I want you to think about this. You know, I want to introduce Dareon to tell her story and -- which I called her up on Friday to say, hey, you know -- because I met her at her graduation ceremony. And so do you want to go ahead and introduce yourself.

DAREON CHAMBERS: Yeah. Hello. My name is Dareon Chambers. Okay. Hi. My name is Dareon Chambers. I'm a graduate from Rising Sun Pre-Apprentice Program in Oakland, California. I heard about them through a friend. And when I applied I didn't think they would accept me because of my background and me being fresh out of prison and on parole. I did eight years in Chowchilla State Prison. I had enough time to sit back and reevaluate my life and how I wanted to change my life and come home and do better and be better.

I learned a lot and I appreciate everything I went through, because of that is what made me who I am today. My life has changed for the better and now I'm on a new path thanks to everyone who has supported me, and had faith in me, and didn't judge me. And Rising Sun gave me an all-time opportunity and I'm thankful for them. Everyone must do their part to create the -- to create a job opportunity for Rising Sun graduates and others. By fostering an environment of support and collaborations, we ensure that talented individuals that have the resources and opportunities they need to drive, leading a more prosperous society for all.

When you give out the money to those developers, you should put a condition on it to make sure pre-apprenticeships like me help build the projects. Also Jay is a graduate from Rising Sun. We're all looking for work and can make a difference in a pre-apprenticeship.

CHAIR MILLER: Thank you. And is your other colleague going to speak?

JAYCEL[phonetic]: Hi. My name is Jaycel[phonetic]. I'm a graduate of Rising Sun as well.

Rising Sun was a door opening for me. But I had a lot of aspects in my life and characteristics that I didn't know I had. Without apprenticeship, I wouldn't have housing. It helped me not be homeless and it teached me a lot of construction, you know, a lot of things that I would need to go into this field. And yet, it would help a lot if you guys do help us, you know, to find new job opportunities. The wait is a long wait. And we're still trying hard. We're networking and getting to know people to try and find an easier way in. But it's always hard, but we keep it pushing. Thank you.

CHAIR MILLER: Thank you.

JOHN DALRYMPLE: And for folks that don't know about the construction trades and apprenticeship programs, they open as many slots as there is projected work. And so when they know somebody like you is funding projects that literally are like the CIM project, a few thousand -- you know hundreds of construction workers. They know that's going to be there. Then they say to these graduates who are old now. They graduated two weeks ago. There's a cohort of 15 women. And they're all looking for work. They know they can open up slots and they -- because we have a place for you.

CHAIR MILLER: Great. Well, we appreciate you coming out today. And thank you for your comments and good luck to you all. Keep on pushing on. Thank you.

Okay. I think that's it for that item. Let me double check. Yep.

Anybody else? No one on the phone?

BOARD CLERK ANDERSON: (Shakes head).

CHAIR MILLER: Okay. So at this point, I would entertain a motion.

VICE CHAIR TAYLOR: I'll make the motion.

CHAIR MILLER: We did that one. Yeah, we're already --

Yep. Okay. So now we move on to 6b, Total Fund Policy Review, second reading.

CHIEF EXECUTIVE OFFICER FROST: Yes. I'll ask Amy Deming to come forward. Thank you, Amy. So this is the second reading of proposed changes to the total fund Investment Policy. Mr. Ruffino, this is the policy that was referenced earlier on the risk classifications for infrastructure. So Amy will be walking through that along with a couple other amendments.

The team first brought you proposed changes in March, and based upon Committee feedback are now presenting the policy for the second reading.

Thank you.

Amy

(Thereupon a slide presentation).

INVESTMENT DIRECTOR DEMING: Thank you so much. Amy Deming, Total -- Investment Office team member.

As you all recall in November 2021, we approved a new strategic asset allocation that increased the private asset allocation and again increased more recently than that, but we also increased or created a new asset class with private debt. As you heard earlier in the teams' reviews, they've been very focused on deploying more capital to meet the new targets. And as the portfolios have evolved, we recognize the need to fine-tune some of the policy for private debt and real assets.

As Marcie said, this is the second reading of the policy. We talked to you about this in March and we took your feedback. You wanted us to further define some of the terminology within private debt, and so we've done that and we'll get to that today.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: And then, if we could skip the real assets slide. The first -- next.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: Yeah, exactly. Thank you. The first change is with respect to the risk classifications in real assets. Note that the policy currently on the left-hand side of the table has three risk categories. Core at the top being the least risk, value-add in the middle is the medium risk, and opportunistic the most risky.

The team proposes to combine medium and higher risk classifications, so the value-add and opportunistic, into a consolidated non-core classification. And this is exactly what was discussed earlier on today. The range for core, again the least risky in each portfolio, is unchanged with the exception of infrastructure where the lower end would go from 60 to 50 percent.

Importantly, the proposal will allow up to 50 percent in non-core investments in the infrastructure portfolio, which will allow the team the flexibility to deploy more capital in the higher return, higher risk, value-add infrastructure space, especially as we look at energy transition projects. This change is consistent with the real assets strategic plan and presents what we think, and I think the -- our consultants agree is minimal overall risk -- change to the overall risk portfolio.

And then if we could switch to the next slide to private debt.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: As the private debt market has evolved, and Jean talked about that quite a bit today, we're looking to fine-tune the substrategies and their ranges. The proposed buckets are consistent with broader market terminology and they mirror the private debt market opportunity set. We're also looking to make minor changes to the ranges just to make them consistent overall. Direct lending, you'll see at the top, is still the significant part of the portfolio and the substrategies below them are consistently aligned now with the proposal.

I think it's important to note that these changes don't change the overall risk of the portfolio. There's a high level of diversification, meaning that under the direct lending portfolio itself, there are hundreds of counterparties, and that in and of itself is diversification.

And then if we could switch to the next slide.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: On this slide, you'll see the definitions that you requested in March. We plan to reflect these definitions in the policy -- in the policy-related procedures. That's generally how we capture asset level information that's more detailed granular, the various requirements of every asset class. So we plan to capture this upon your approval of course in the policy-related procedures, which are overseen by the Board's consultant.

I think this was mentioned earlier, but it's important to note that this isn't really a change in the portfolio, but just a clarification of terminology.

So next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR DEMING: So this is what we recommend, again not a huge change from what we brought in March. We took your feedback. Hopefully, you feel like -- you know, that it's been answered and that we're on the right track. Please, you know, any questions you have, this is -- this is what we propose and would love any questions or feedback.

CHAIR MILLER: Okay. Thank you.

I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Sorry. Let get myself organized here. Thank you, Ms. -- thank you, Ms. Deming, for this. The first question I have is on the -- first of all, thank you very much for the presentation. Thank you for the definitions. They really do help.

In the specialty lending, I noticed that one of the debts would be consumer related debt and lending -- and credit card and credit card loans. And I think in a previous discussion, a different discussion, we were going to consider underwriting process to make sure that we underwrite these correctly. And I'm just wondering what are your thoughts about this in this area?

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yes. Thank you. I'm happy to take that.

COMMITTEE MEMBER PACHECO: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: So we're working with external managers. So it's really specialists in the asset class that we identify, and we invest with, and we co-invest alongside them. So they're not direct investments. So we are working with people who have got the data, the technology, the expertise, and the experience to properly assess these transactions.

COMMITTEE MEMBER PACHECO: Okay. Thank you. I think Jean is right there.

MANAGING INVESTMENT DIRECTOR HSU: Yeah. So this is no different than what we talked about. You know, it's the same theme about banks retrenchment. So banks were big lenders to consumers and smaller corporates. So they retreat from the corporates. That happened in like, you know, 10 years ago. So like if you look at the corporate direct lendings, the private debt into the corporate direct lending, if we use like baseball analogy, it's probably in the 7th or the 8th innings. But where it is in the -- it's the best financing. The consumers, the credit cards, student loans of the world, this happens in the past couple years, given the Basel III and then also another liquidity, accounting rules, like the CECL rules.

COMMITTEE MEMBER PACHECO: I see.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: So that will put additional burden on the banks in terms of their capital -- risk-weighted capital requirements. So they are retreating from here. And then this, they give us the opportunity to do common. The underwriting standards will be on par with whatever the bank was underwriting. So, you know, actually you can see like the Barclay's that they've sold their credit card portfolios to a whole bunch of, you know, asset managers.

COMMITTEE MEMBER PACHECO: I see.

MANAGING INVESTMENT DIRECTOR HSU: And so things like that. And then student loans that Wells Fargo sold the whole 10 billion student loan book to a couple of the asset managers. So we're taking advantage of banks retreating from here and then buying it a cheaper price.

COMMITTEE MEMBER PACHECO: Okay. Very good then. And then the last question I think is more in line with us is do you think -- and I think you may have answered this already. Do you think the modifications to the private debt strategy categorizations reduce the portfolio level diversification?

MANAGING INVESTMENT DIRECTOR HSU: Okay. So if you look at the direct lending itself --

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR HSU: -- okay, under the direct lending, we have 610 obligors. So we lend to 610 different companies. So this is very, very different than our private equities. In the private equity in each fund, you probably have like 10 names in each fund. In ours, is that your a lender, like one of the middle market lenders, very easily 300 names underneath that. So the portfolio itself under the fund has provided diversity within. So you have less of the idiosyncratic risk.

COMMITTEE MEMBER PACHECO: Excellent.

MANAGING INVESTMENT DIRECTOR HSU: When we are going into the asset phase of the finance is pooling of thousands of individual obligors, so it's even more diversified.

COMMITTEE MEMBER PACHECO: Wow. Thank you for that comment. Thank you. That's all I have.

CHAIR MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. Thank you very much for the presentation. On the proposed asset -- Real Assets Policy changes adding this non-core -- merging into the non-core, I know I -- for the risk -- does this, in any way, impact or change how capital is deployed? Is that what we're -- it just talks about flexibility. So is that what we're looking for or what is the flexibility we're seeking here to execute the strategic plan?

Hi, Sarah.

MANAGING INVESTMENT DIRECTOR CORR: Hi. So on the -- it's mostly about infrastructure. On the infrastructure side, as we built out the portfolio, we started to add more value-add to the portfolio. And we -- so value-add would be a little bit higher risk, but higher returning. So we'd been looking for something, you know, low to mid double digits, like mid-teens return there, as opposed to like 10 percent in the core. By moving up the risk spectrum and getting into value-add, we think we can enhance the returns of the portfolio.

When we were building out the portfolio from the beginning, we focused on core so we would have an asset base that we felt was very stabilized. Now, that the portfolio is up to $15 billion, and we think we can add value-add and increase the returns.

COMMITTEE MEMBER RUBALCAVA: When will we start seeing these new results of the value-add because of the new classification I guess of this?

MANAGING INVESTMENT DIRECTOR CORR: Most of those investments were made in the past two years. And a typical infrastructure investment is held for eight to ten years. So it's going to be multiple year before we really see it come through.

COMMITTEE MEMBER RUBALCAVA: So you'll be giving reports --

MANAGING INVESTMENT DIRECTOR CORR: Correct.

COMMITTEE MEMBER RUBALCAVA: -- updates to the Board.

Okay. Thank you very much. Thank you, Mr. Chair.

DEPUTY CHIEF INVESTMENT OFFICER BOOTH: Yeah, and I'll just add two comments to Sarah's. So firstly, the value-add is the medium risk stuff, the opportunistic is the high risk category. So we're finding more opportunity in the medium risk category versus the high risk category. So we think overall it's not adding risk to the plan. And in particular, the energy transition side is where the markets are evolving. There's less contracted revenue and that's where a lot of the value-add exposure is going.

COMMITTEE MEMBER RUBALCAVA: So my original question was whether there will be a change in how we allocate capital. So will there be a change or not be a change now that we have this. We're target middle infrastructure.

MANAGING INVESTMENT DIRECTOR CORR: There will be a change.

COMMITTEE MEMBER RUBALCAVA: So there will be.

MANAGING INVESTMENT DIRECTOR CORR: We will allocate more to value-add. It won't change how we approach opportunistic, but we will allocate more to value-add.

COMMITTEE MEMBER RUBALCAVA: Okay. That -- I needed that clarification. Thank you. Thank you very much. Thank you, Mr. Chair

CHAIR MILLER: Okay. Thank you. I'm not saying any more requests from the Board and I don't believe we have any public comment on this item.

So yeah, thank you for the report and the answers to the questions. And at this point, what's the pleasure of the committee?

COMMITTEE MEMBER RUBALCAVA: I'll move approval

COMMITTEE MEMBER PACHECO: Second.

CHAIR MILLER: A motion from Rubalcava, seconded by Pacheco.

Any further discussion?

Okay. I'll call for the question. Please call the roll.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Aye.

BOARD CLERK ANDERSON: Malia Cohen?

COMMITTEE MEMBER COHEN: Aye.

BOARD CLERK ANDERSON: Frank Ruffino?

ACTING COMMITTEE MEMBER RUFFINO: Aye.

BOARD CLERK ANDERSON: Nicole Griffith?

ACTING COMMITTEE MEMBER GRIFFITH: Aye.

BOARD CLERK ANDERSON: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Aye.

BOARD CLERK ANDERSON: Dr. Gail Willis?

Okay. The motion carries.

So we're on to 6c, Policy Changes for Responsible Contractor Policy, second reading.

CHIEF EXECUTIVE OFFICER FROST: Yes. Let's invite --

(Laughter).

CHIEF EXECUTIVE OFFICER FROST: You should just stay seated Sarah. Sarah and Tamara back to the presenter's table. This is our last open session item today and is the second reading of the proposed changes to the Responsible Contractor Policy. The team first brought you proposed changes in March after conducting a thorough review process, which included several stakeholder meetings to add together input, as well as with external managers and consultants. And so with that, I will turn this over to Sarah and Tamara.

(Thereupon a slide presentation).

ASSOCIATE INVESTMENT MANAGER SELLS: All right, good afternoon. Tamara Sells, Associate Investment Manager, Sustainable Investments. Today, I will present Agenda Item 6c, policy changes for the Responsible Contractor Policy, second reading. I will provide a brief overview of the Responsible Contractor Policy and scope. I will review the RCP history and the refresh timeline and activities. I will touch on the RCP policy review process and activities following the March IC. And I will review additional proposed policy revisions as well as revisions considered by not adopted.

So as a reminder, the Responsible Contractor Policy applies to U.S. real estate infrastructure investments where CalPERS holds a greater than 50 percent interest on contracts equal to or greater than 100,000. When our real estate and infrastructure investments meet this threshold, external managers are required to provide annual compliance and certification reports.

CalPERS has a deep interest in the condition of workers employed at CalPERS-owned assets. So the purpose of the policy is to ensure that managers, contractors, and subcontractors take prudent and careful action while managing the Responsible Contractor Program. And it demonstrates CalPERS's support and encouragement of fair wages and benefits for workers employed by our managers, contractors, and subcontractors subject to fiduciary principles concerning duties of loyalty prudence, which further require competitive returns on CalPERS real estate and infrastructure investments.

The Responsible Contractor Policy requires a broad outreach, competitive bidding, and fair competition, and seeks bids from all qualified responsible contractors for building and construction-related, property-related services, and creates a framework for responsible contracting based on local market conditions. The Responsible Contractor Policy seeks to secure the conditions of workers without adverse effect on our investment returns, access to investment opportunities, or significant costs.

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ASSOCIATE INVESTMENT MANAGER SELLS: The

Responsible Contractor Policy was established in the nineties, and has been reviewed and refreshed twice with extensive engagement and input from stakeholders, such as trade, union, and labor organizations, investment managers, consultants, fiduciary counsel, and Investment staff. The policy is reviewed on an ongoing basis by CalPERS staff as issues, questions, and concerns are raised regarding implementation of the policy. Following the direction by the Investment Committee, we are currently conducting the third formal policy review and engagement process.

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ASSOCIATE INVESTMENT MANAGER SELLS: The current RCP refresh has been underway for the past 10 months and began in August with internal planning discussions followed by a series of public posts inviting all CalPERS stakeholders to provide written comment. Stakeholders were also invited to engage directly with CalPERS staff to provide their perspective on RCP updates.

Between September and January, CalPERS staff conducted engagements with trade union and labor organizations, our RCP managers, peers, the Board -- and the Board consultant. We compiled recommendations and; conducted detailed research, reviewed and assessed proposed updates, and drafted proposed policy revisions.

The first reading of the proposed policy revisions was brought forth at the March IC, where staff sought the Board's feedback. Following the March IC, staff conducted additional outreach offering stakeholders an opportunity for follow-up meetings to engage in a dialogue with CalPERS staff, share their perspectives, and provide any new information that they wanted CalPERS to consider.

Between March and May, staff conducted a series of follow-up engagements with trade union labor organizations, the managers, the Board consultant, peers, and Legal. Today, staff are bringing forth a second read of the proposed policy updates with a recommendation for adoption.

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ASSOCIATE INVESTMENT MANAGER SELLS: The policy review process for this current refresh has been informed by a number of inputs, including engagements -- extensive engagements with stakeholders, managers, the Board consultant and legal counsel, review of market and industry guidance, peer review benchmarking and engagements, assessment of practical examples, where we've experienced implementation challenges that have been raised under RCP. We've conducted a series of follow-up engagements, research and reviewed additional considerations raised by the Board, stakeholders, and external managers. We made additional edits to the policy and we reviewed the proposed changes with the Legal Office.

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ASSOCIATE INVESTMENT MANAGER SELLS: CalPERS staff carefully and thoroughly vetted 15 areas for potential updates and proposed updates to eight areas of the policy, which are reflected under the categories on slide six. Today, staff are proposing additional updates to the policy reflected as the red text on this slide, as well as some formatting and clean-up changes.

The first update that staff proposed is to expand the definition of a responsible contractor in the policy and on the contractor's certification of responsible contractor status form to reference debarments. This form is a required questionnaire that potential contractors must complete and respond to questions about its firm and the marketplace in which it operates. The form is used by potential managers to assess the responsible contractor status of potential contractors.

We heard feedback from managers that requiring contractors to self report and certify their regulatory status with respect to debarments will provide greater transparency and help managers and contractors be more vigilant in the hiring and selection process.

As for the next proposed revision, recall that CalPERS Labor Principles cover more assets beyond the Responsible Contractor Policy and will serve as the vehicle for engagement when labor issues arise under those assets. However, we recognize that the Responsible Contractor Policy should be aligned with the CalPERS Labor Principles, so staff proposed to add the full language of the CalPERS language principles within the responsible contractor policy, as well as an updated link to those principles.

The last proposed policy revisions stem directly from Board feedback that we heard in the March Investment Committee. We asked to consider expanding the language around voluntary compliance and we were also asked to consider elevating neutrality in the policy. So staff are proposing policy revisions to add reference to commingled and indirect investments in the voluntary compliance section, and lastly to elevate and move neutrality up to the definitions section of the policy.

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ASSOCIATE INVESTMENT MANAGER SELLS: There were policy revisions that after careful consideration staff did not propose updates. Following the March IC and feedback from the Board, staff reviewed market and peer practice around a mechanism for granting bid credits for those that have their own responsible contractor policy.

Although staff determined that our current practice remains consistent with best practice, we did identify an effort to encourage the participation and selection of responsible contractors through taking a different approach by promoting greater vigilance in the hiring and selection process.

So first, we proposed expanding the definition of what is and is not a responsible contractor. Staff also proposed enhancing policy language to reflect our support and encouragement of safety training by contractors and using skilled and trained contractors to perform the work safely, both of which were proposed in March. And as mentioned earlier, staff is proposing to expand the language in the contractor certification of responsible contractor status form to reference these debarments, when a contractor reports and certifies its regulatory status. Managers will also be encouraged to utilize federal, State, and local debarred contractors lists as a screening tool and we believe this approach should help weed out bad actors.

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ASSOCIATE INVESTMENT MANAGER SELLS: The proposed policy revisions before you today reflect the collective input of staff, the Legal Office, external manager, our labor union and trade stakeholders, and the Board consultant. These proposed updates are the culmination of a 10-month long comprehensive process. Proposed revisions were carefully vetted to ensure suggestions did not create unintended consequences and negative investment outcomes.

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ASSOCIATE INVESTMENT MANAGER SELLS: CalPERS staff asks that the Board approve the proposed revisions as presented. If approved, the revised policy will provide greater clarity on how we define a responsible contractor. It will promote greater vigilance in the hiring and selection of contractors. It will incorporate CalPERS's Labor Principles. It will support enhanced communication between managers, labor organizations, union, and staff. It will reinforce our expectation for healthy and safe working conditions while performing services with respect to RCP investments. It supports and encourages participation of all qualified firms including service disabled veteran owned business and minority owned and controlled firms, and firms owned and controlled by women.

It will address any potential gaps in reporting by external managers. And the RCP policy will also be improved by other technical and clarifying edits. This concludes the presentation on the RCP policy second reading and we would be happy to answer any questions.

CHAIR MILLER: Okay. Thank you for the presentation and a huge thanks for all the work that went into this over many, many months, lots and lots of great staff work, and a very clear presentation.

So I have President Taylor.

VICE CHAIR TAYLOR: Thank you, Chair Miller.

It's chilly in here. You don't have to turn the air off though because then everybody will be hot, so...

I just -- I just wanted to thank you again, Tamara, for the work that you do. So -- and I know you feel like you've gotten it all from all sides. You know, I know there's a lot of -- everybody has an opinion. I have opinions too, so I was just going to kind of go down what I really think is really, really helpful for us. And part of that is that putting in the RCP competitive build -- bidding, the debarment, strengthening our safety and training, and making it clear that we have standards for real asset investors, and that we will continue to fortify work in this space, right? So we're going to -- it's kind of a ongoing issue -- or not issue, but an ongoing work of art, so that we can align this with our Labor Principles as well. Because we want to take care of these folks because it -- in the long run, it is better for the fund. We're losing -- you know, projects don't get delayed. They don't cost more money when you have experienced workers, et cetera, et cetera.

And I know you know all of that, so -- and it's taking you guys a really long time and I really appreciate all the work that went into it. But I just want to make sure that we -- that everything aligns together. So there was a couple of caveats that I had, which is when was the fair wage and you and I talked about that. And I think we should have a -- maybe an educational session on the difference for everybody and discuss it, but also I think we need a little additional work around the concepts on how the Labor Principles work under federal law and State law, and then the subasset classes, right, and the -- and I think -- I think one of the things that we're running into is the legal -- the neutrality issue. And I think I talked to Ms. Frost about this as well.

And I'm wondering if -- is it possible that we could -- you guys could go back and we could -- maybe

David and I could work with you guys and, Marcie, you and Tamara about -- and you had said something about this and you had said something about this, whether or not we could even do this, partial -- to see if we can find different language.

One of -- part of that language was something you mentioned earlier, that one of our asset managers is using. And we'd be happy to explore that with you guys and see what we can come up with to get that kind of language in there. So I wanted to -- I don't know if we take that part out right now and hold it or if we hold the whole thing. I think that's up to David.

CHAIR MILLER: Well, I don't know if it's up to me.

VICE CHAIR TAYLOR: Or it's up to the Board.

CHAIR MILLER: But I think getting it right is more important than getting it quick, and getting everyone on the same page and having clarity of understanding and common understanding, and say even if it's just definitional understanding that we can tweak some of the language and make sure -- I really do like reiterating the Labor Principles explicitly is another thing that I really like about this. But I don't know that the whole thing has to happen today. And as we discuss it, we may find some other changes and tweaks that we can make to make it something that we can more easily have common understanding and everyone on the same page all at once. I think trying to kick it around in detail in here today is probably a bridge too far.

VICE CHAIR TAYLOR: And it brings in stuff we can't talk about.

CHAIR MILLER: So my inclination would be to work on it some more and bring it back for a third reading.

VICE CHAIR TAYLOR: So maybe I submit --

CHAIR MILLER: I'm open to my colleagues' thoughts too and I've got several more that have something to say.

VICE CHAIR TAYLOR: Okay. So before -- I will make a motion later then.

CHAIR MILLER: Okay. Let me go to Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair. Tamara, great work you folks have done. And following up on the comments from President Taylor and Chair David Miller, I, too, would support continuing the approach. But I do have just one area -- two state -- a statement and then a little question or maybe a comment for future discussion.

You know we're building on a legacy policy that was done before we were on the Board and we have to really credit our predecessors the CalPERS trustees. They did a gate job. But now when we're coming to refresh it, the economy has changed, the relationship has changed, so there's a new way to look at it.

One area what I thought we could look again, President Taylor and Mr. Miller, is the section on competitive bidding. I know there was rejection -- well, reject -- that it was decided that this bid credits is not the right approach. But we do want to make sure there's a strong definition of responsible contractor. And more importantly that the best qualified contractors do get those jobs, so they can hire their apprentice, and everything else.

So I would support the Chair's and the President's comments about another -- continuing the discussion on this issue.

Thank you. Thank you, both. It's great.

CHAIR MILLER: Okay. Director Palkki.

COMMITTEE MEMBER PALKKI: Yeah. Without -- thank you and thank you for all the work that you've put into this. I've said it time and time before that I know there's a lot of hours that don't get recognized, so I want to make sure that you're recognized for all those hours that go into these projects.

Just for clarification, the policy would relate to projects outside of California as well too, right, so nationwide, and possibly globally.

ASSOCIATE INVESTMENT MANAGER SELLS: Just domestic U.S.

COMMITTEE MEMBER PALKKI: Just domestic. Okay. So, yeah, again, I think -- I'm trying to find language that works nationally, because what happens in California doesn't happen in other states, right? So I feel we don't want to put ourselves in sort of a pigeonhole when it comes to our policies. So just thanks. And then I agree with President Taylor, so...

VICE CHAIR TAYLOR: The caveat. I got you.

CHAIR MILLER: Yeah. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Chairman Miller. And I also want to concur, Sarah, for your fine work you and your team in doing this. And I know it's been a road, but I -- it's really important that we do this.

I also want to concur with President Taylor and with Chairman Miller on the sentiments, as well as the rest of my colleagues on where we want to move forward. But I want to make a statement on this. And I say -- and it kind of -- kind of relates to what Ms. Taylor was saying regarding the labor neutrality. You know, from understanding, the Responsible Contracting Policy has labor neutrality language other than infrastructure, for which we, as a Board, you know, in my opinion -- in my humble opinion, we should conduct market research analysis to assure that it will -- it will not have any financial implications in the system overall. I think, from us from a -- from a standpoint of being our duty of prudence needs to be applied here. And we need to make sure that we're doing -- you know, we're putting -- we're putting everything over the rocks and we're making sure -- make sure we're checking everything before we make one of these very, very important decisions that will have implications for a lot of people.

In addition to that, I would also say that with respect to the -- without -- in my opinion, without prevailing wage provision for labor standards for skilled and trained CalPERS controlled projects, there would be less opportunities, in my opinion, to create -- for creating building trade apprentices in the state of California.

I mean, I was very moved by the sun -- by the Rising Sun individuals that had come before us as public comments. And they -- especially the young lady who was -- who had just got out of prison. I mean, what a change that has happened and how that has really impacted. And, you know, I think in my -- in my humble opinion, those kinds of stories and what our money, how -- what our working capital has done, not just for making sure that we generate the alpha that we need to -- for our members, but it also does good for our community, and -- especially when I remember from the -- from our impact report that we do in November, and the one that talks about California and what we've done in California. And there was a little section there about constructions workers and so forth.

And I find those kinds of -- those kinds of things moving for us. It really makes us positive for our community and brings out those things. So I would -- I would concur with my fellow Board colleagues in having a -- you know, perhaps moving whatever -- what Dr. -- what Ms. -- President Taylor will move and I would second it, if it's possible. Thank you.

CHAIR MILLER: Okay. Thank you.

Next, Controller Cohen.

COMMITTEE MEMBER COHEN: All right, thank you very much. Finally. All right, thank you very much. All right. So I have some specific questions. I'm in favor of continuing. But before we go on, I just wanted to ask specifically why we're not mandating prevailing wages as opposed to just leaving it as a consideration. And this is on policy page number -- this agenda Item 67[sic], attachment 1, page seven of 12.

So I -- you see that on bullet point number 4. So I just want to know why we're not mandating prevailing wage, as opposed to just leaving it as a consideration?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. The Responsible Contractor Policy right now is a framework that's based on local market conditions and it recognizes that local market practices and conditions vary across the country. And that flexibility in the implementation is right now the crux of the policy. So we avoid -- the policy avoids a narrow definition of fair wage, of fair benefits, and trading that might not be practical in all markets. However, the policy looks to local practices to concern -- excuse me, concerning the type of trade, the type of project, the local wage practices, State laws, prevailing wages are a factor as well, labor market conditions, and other items.

So the definition of fair benefits generally includes, but is not limited to, employer paid health care coverage, pension benefits, and apprenticeship programs, which we also ask our firms to -- on the questionnaire, whether they're -- whether they will be providing access to apprenticeship programs for skilled and trade workers. So what constitutes a fair wage and a fair benefit depends on the wages and benefits in comparable real estate and infrastructure projects. It's based on local market factors and nature of the project, comparable job classifications, the scope and complexity of the services provided.

So that is right now why the current definition and treatment includes prevailing wages as a consideration and is consistent with the current practice amongst peers as well.

COMMITTEE MEMBER COHEN: Consistent with the current practices amongst the peers. So that's -- I mean, that's interesting. I'm just really surprised that it -- we're not mandating it. I understand the market constraints, but certainly I'm thinking about the market here in California. I mean, we have a minimum of $20 an hour minimum wage and prevailing wage is pretty much the way of the land here in the State of California. And so this is our accepted policy, so I don't understand why we cannot -- I still don't understand why we don't have it as a mandate and it's still limited as something very soft and ambiguous as a -- as a consideration.

CHIEF EXECUTIVE OFFICER FROST: So these are also projects that would not be happening here in the state of California. So what Tamara is trying to do is create consistent framework that can be applied in California, which is not where the prevailing wage issue is, but also in other states where, you know, this is a consideration, but it's not a mandate.

COMMITTEE MEMBER COHEN: Like Indiana, Ohio, some of the -- okay. Okay. Thank you very much. Appreciate that.

So I definitely support moving to a third reading just to clarify the language regarding which investment this policy applies to. You know, this is the -- and I'm specifically looking at the summary of proposal policy revisions. To me, it looks like the policy is inconsistent in referencing core versus non-core manager application of a policy, particularly as it relates to neutrality. Can you speak to that for me, please?

CHIEF EXECUTIVE OFFICER FROST: Sarah.

MANAGING INVESTMENT DIRECTOR CORR: So that was a heavily negotiated item back in 2015. A lot of work was -- I was not in real assets -- real estate at that point in time.

COMMITTEE MEMBER COHEN: Me neither. I wasn't around. I was still a kid.

(Laughter).

MANAGING INVESTMENT DIRECTOR CORR: But that was a heavily negotiated body of work around neutrality. A lot of work was done around fiduciary duty --

COMMITTEE MEMBER COHEN: Um-hmm.

MANAGING INVESTMENT DIRECTOR CORR: -- as it relates to that.

COMMITTEE MEMBER COHEN: Um-hmm.

MANAGING INVESTMENT DIRECTOR CORR: It was actually even a two-year trial period before it became effective in its entirety to make sure that it did work and there was not a negative outcome.

COMMITTEE MEMBER COHEN: Um-hmm.

MANAGING INVESTMENT DIRECTOR CORR: And that's why it was at core -- it was focused on core --

COMMITTEE MEMBER COHEN: Um-hmm.

MANAGING INVESTMENT DIRECTOR CORR: -- within the real estate program. Our focus is on core real estate.

COMMITTEE MEMBER COHEN: Um-hmm.

MANAGING INVESTMENT DIRECTOR CORR: I mentioned earlier, we might add some additional value-add to it, but back in 2015, the only thing that they were doing in real estate was core real estate. And so it applied to the vast -- to everything that they were doing at that point in time.

COMMITTEE MEMBER COHEN: Okay. That makes sense. So are we creating a policy that will be dynamic and be able to make these kind of changes as the market changes and our investment strategy changes?

MANAGING INVESTMENT DIRECTOR CORR: I'm not sure if we can make the policy dynamic. I think that we can review it more often than every nine years.

COMMITTEE MEMBER COHEN: That's a good idea.

(Laughter).

MANAGING INVESTMENT DIRECTOR CORR: But I don't know that we can make it --

COMMITTEE MEMBER COHEN: Okay. We can make that commitment here, right?

(Laughter).

COMMITTEE MEMBER COHEN: We review it. I don't know. More often than every nine years. That's -- hey, that's a win. I'll take that.

(Laughter).

COMMITTEE MEMBER COHEN: You know, so this initiative -- this initiative -- this initiative -- this policy discussion that we're having was brought to us because it was -- people -- staff thought it was ready to be voted on. And you heard from a majority of the voices on this body saying, hey, not quite ready. But I really want to know why wasn't neutrality included already? If this is the final version that's being presented to us, why do we have to push it back and say we would like to see more neutrality language implemented in this? I mean, and there's been a ton of public comment and outreach on this issue, so I don't understand why we didn't anticipate this prior --

MANAGING INVESTMENT DIRECTOR CORR: Yeah, so --

COMMITTEE MEMBER COHEN: -- so we could be voting on it.

MANAGING INVESTMENT DIRECTOR CORR: So the decision to take -- to not expand neutrality was based on advice from the Legal Office. They didn't feel that enough work had been done to make sure that staff and the Board would be meeting their fiduciary duty by expanding it at this point in time.

COMMITTEE MEMBER COHEN: That's interesting. So are we now going to do those steps and let the lawyers fight it out in terms of having the due diligence so we have the resource -- so we have the knowledge base as to whether or not neutrality is --

MANAGING INVESTMENT DIRECTOR CORR: Based on the feedback we're getting today, we will work with --

COMMITTEE MEMBER COHEN: Yeah. It sounds like we should have probably already skipped that and -- skipped that -- we skipped that step, but we should not have. We should have just started there.

Are we good, Ms. -- okay.

I have no other questions. Thank you very much. This is very thoughtful. And I am -- I'm glad to know that you are amenable to this body's concerns and that the policy when it comes back to us will reflect what we'd like to see in it.

Thank you.

CHAIR MILLER: Okay. Thank you.

Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. I think a lot has been said already, so I don't want to repeat. I do want to, on behalf of the Treasurer, say that the Treasurer supports some of the concerns that have been already addressed, and even a third reading. And I would say quickly, by the way, and I might get in trouble, because I'm going to use an analogy here, about pasta, right? Italians, we love pasta.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: And pasta, you know, you have to -- it has to be al dente, otherwise you're not going to eat. If it's -- but this is -- this is way too al dente to digest it. And therefore, you know, just needs a little more cooking, not too much to the point where it -- because it goes the other way too. You overcook it and you're not going to touch it either.

CHAIR MILLER: You have Chef Boyardee.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: So, with that said, Mr. Chair, I just have a question of process. Is -- is the -- do we need -- because this is an action agenda item. Does that needs to be changed? Do we need a formal motion to --

VICE CHAIR TAYLOR: I'll go.

ACTING COMMITTEE MEMBER RUFFINO: Okay. I got it. Thank you.

CHAIR MILLER: Thank you.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair.

CHAIR MILLER: Okay. I'm not seeing any more comments from the Board.

And we will have quite a few public comments on this item, so -- yeah. I would entertain a motion.

VICE CHAIR TAYLOR: I don't have --

CHAIR MILLER: President Taylor has --

VICE CHAIR TAYLOR: You have to turn it on first.

CHAIR MILLER: It's going to go one of these clicks.

VICE CHAIR TAYLOR: You got it?

CHAIR MILLER: There, we got it.

VICE CHAIR TAYLOR: Yay.

CHAIR MILLER: Sometimes it takes two, sometimes it takes five.

VICE CHAIR TAYLOR: So -- and again, guys, I hate doing this, but I think it's incumbent upon us to get this right, right? So let's -- as we're pulling it back and looking at it, then we can really sort of integrate those labor principles into it as well, but I think -- I think we'd like to talk to some more experts about the neutrality, about fair wages. And I get what -- you know, we're not -- we're not just doing this for California. And just look at competitive bidding and maybe take a look at some data on that. Maybe we can get some data on that, so that we can look at whether or not that's something that we could figure out a stopgap. It doesn't have to be -- it could be in the accountability phase of the responsible contracting. But what -- however we do it.

So here's what I'd suggest that we include the RCP one -- the work with Chair Miller and I working with you guys, if we could, staff, Marcie, Tamara, and then the staff can take it from there. I want to make sure the alignment is kind of clear that we've got it to the best of our ability. We're using the right language. We've talked to the right experts. And we're in this whole new ecosystem, so I want to make sure that we're getting it right.

So if we could pull this -- so my proposal is to pull this out of action item for a third reading after we work on it together, the Board and the staff, and then come back to -- it doesn't have to be even done in September. We can wait till November if that works.

CHIEF EXECUTIVE OFFICER FROST: So, Ms. Taylor, if I -- if I could, just for a moment, just to make sure that we have a consistent understanding of where labor neutrality currently applies in policy and where it does not.

VICE CHAIR TAYLOR: Yes.

CHIEF EXECUTIVE OFFICER FROST: Right. So labor neutrality applies in all of the core real estate --

VICE CHAIR TAYLOR: Correct.

CHIEF EXECUTIVE OFFICER FROST: -- which is what Sara just mentioned. The five-year pacing in non-core is relatively small to the total allocation. Where it is not existent today is in infrastructure. Now, it will take us some time to do that market assessment in infrastructure, very similar to what Sarah mentioned that we had done on the core real estate. It took some months to get through that. So, we could work with you on identifying when an appropriate time to bring this item back, but we're really talking about moving RCP into infrastructure where it has not been.

VICE CHAIR TAYLOR: (Nods head).

CHIEF EXECUTIVE OFFICER FROST: Or not -- excuse me, RCP and neutrality --

VICE CHAIR TAYLOR: Not -- yeah, yeah, yeah. Labor neutrality.

CHIEF EXECUTIVE OFFICER FROST: -- in infrastructure where it has not been.

VICE CHAIR TAYLOR: And we're not talking about the language, the neutrality language as it is based on the legal opinions that you sent us. What we're talking about is maybe changing the language and then socializing them. That's what you're talking. You're not talking about a market strategy. You're talking about socializing it with our GPs.

CHIEF EXECUTIVE OFFICER FROST: Just depending on that language, right?

VICE CHAIR TAYLOR: Yeah.

CHIEF EXECUTIVE OFFICER FROST: I think it would depend on the language that we put out there.

VICE CHAIR TAYLOR: And it would have to be approved by legal, et cetera. So we're aware. I think everyone here is aware.

CHIEF EXECUTIVE OFFICER FROST: Okay. I just wanted to make sure we had a consistent understanding where it applies today, where it has not historically applied, and what we're talking about.

CHAIR MILLER: Yeah. Yeah. So I think we kind of understand where -- we're going to go forward to a third reading. They'll be more work done and even little details like whether it's approved or supported, you know, kinds of things.

So let me go to Director Pacheco.

COMMITTEE MEMBER PACHECO: So I just want to -- I just want to be clear. Are we going to take into consideration our market research analysis?

CHIEF EXECUTIVE OFFICER FROST: Yes.

COMMITTEE MEMBER PACHECO: That's my understand -- that's my understanding.

VICE CHAIR TAYLOR: Yes.

COMMITTEE MEMBER PACHECO: Okay. Very good then.

CHIEF EXECUTIVE OFFICER FROST: Yep. We would need to do that.

CHAIR MILLER: So we have a motion.

COMMITTEE MEMBER PALKKI: Hand raised.

COMMITTEE MEMBER PACHECO: I'll second it.

CHAIR MILLER: We got a second from Mr. -- who was the --

COMMITTEE MEMBER PACHECO: Second me.

CHAIR MILLER: Okay.

COMMITTEE MEMBER PACHECO: Thank you.

VICE CHAIR TAYLOR: I though it was Mr. Palkki.

CHAIR MILLER: Oh. You guys want to arm wrestle?

VICE CHAIR TAYLOR: It doesn't matter. Anyway.

CHAIR MILLER: Okay.

VICE CHAIR TAYLOR: And we're agreeing we don't have an end date until we've done this, so there we go.

CHAIR MILLER: Okay. So any further discussion before we go to public comments before we vote that or do we want to vote on this before we -- we can vote on this and get this out of the way and then do public comments.

VICE CHAIR TAYLOR: Yeah. I mean, we're pulling it, so --

CHAIR MILLER: Okay. So any further discussion before I call the question. Okay. I'll call for the --

COMMITTEE MEMBER COHEN: Just a point of order. Just a point of order. Do you -- don't you take public comment before the vote?

CHIEF EXECUTIVE OFFICER FROST: You don't have to make a motion to have this delayed and not take action today. You could actually do it as Committee direction.

VICE CHAIR TAYLOR: Oh, well, there you go.

CHIEF EXECUTIVE OFFICER FROST: It's your choice, but I know Ms. Cohen had a point of order

CHAIR MILLER: Yeah, good point. Okay. So we will table this and bring it back as an action item at another Board meeting, and -- but we'll still take public comment on the topic, as we've got a lot of interest and we don't need a motion.

So -- okay. So I have quite a few folks here to comment on this one. So I'll call -- I'll call three at a time up. And as before, come down and take seats and we'll get started. So the first person I have is Jennifer O'Dell, followed by Michael Angulo, and then David Huerta.

And if you'd come on down. Whenever you introduce yourself and begin to speak, your time will appear and you'll have three minutes to make your comments. If anyone needs a translator, you'll have an addition three minutes for them to translate as well.

JENNIFER O'DELL: Hi. Good afternoon. My name is Jennifer O'Dell from the Laborers International Union of North America. I help run our union's responsible investment program. I'm so happy that the -- I really want to thank Tamara for taking this issue so seriously. We really worked closely with her. We're happy that you are delaying this currently, because I think there's some more work that needs to be done. I wanted to also thank the Board of trustees for listening to us and taking it so seriously as well.

We appreciate since the first reading there have been some extremely -- excuse me, I'm catching my breath from running down the stairs.

(Laughter).

JENNIFER O'DELL: We appreciate that there's been some changes made, but we don't think it really deals with some of the inconsistencies that end the contradictions that are included in the current reading of the document. No contractors at the Laborers Union have ever -- at least the last five years, have been successful at bidding and winning work under the Responsible Contractor Policy. I'll repeat that one more time. We have never won any work from a CalPERS job under this Responsible Contractor Policy. And that's after our contractors have bid this work.

And you should also understand that there is a cost associated with putting forth a competitive bid. But we have never been successful in winning those jobs. And I would argue, and I think most would agree, we are the definition of responsible contractors. Modest improvements have been made, but this Responsible Contractor Policy still needs work. I'll point to the neutrality language in particular. The language, one, only appeal -- only applies to core real estate, as has been mentioned, not to infrastructure. We think that's a problem.

Second, construction is specifically excluded from the neutrality language, so that means if we were to run a Board election at a construction site under one of our -- for one of our contractors, this RCP's neutrality language does not apply. We would like to -- we understand that there is a legal opinion that you all have been provided with. We would love the opportunity to argue why construction should be included in this neutrality language.

Finally, the new language really does nothing to define what a real Responsible Contractor Pol -- real responsible contract is. We think that it should include a few things. One, it should include a contractor that provides prevailing wage to its employees one. Second, it should also require registered apprenticeship programs. It should also require that employees are afforded health benefits. And finally, I think most important for you all, you should also require that workers are given the opportunity to retirement security. Currently, none of that is included.

We hope -- we are so glad that you delayed the vote today, so that we can -- we can work with you closer on this issue. So we appreciate your time. Thank you so much.

CHAIR MILLER: Thank you.

MICHAEL ANGULO: Good afternoon. My name is Michael Angulo. I'm a Senior Researcher with Worker Power Institute, a non-profit organization that's leading the fight for economic justice and the preservation of democracy in the United States.

Over the past few months, we've been partnering with public pension funds across the country to address the increasing risk of labor unrest and it's effects on investment to ensure that workers can have a dignified and secure retirement. I'd like to share some of the research and findings Worker Power Institute has published in our new report, which I believe was handed out to you earlier striking out public pension funds, private equity, and a new wave of labor unrest.

Labor unrest is growing across the country. Last year saw over 24.8 million individual days of work stoppages involving over half a million workers. As the Wall Street Journal reported, 2023 saw the highest number of work days lost to labor disputes since the year 2000. Strikes also have a very real financial implication. Researchers have examined data from the Bureau of Labor Statistics and found that the average loss to a company facing a strike ranged between 7.9 and 51.5 million dollars per day.

Paramount Global, the owner of CBS, MTV, and Nickelodeon revealed to investors that last year's strike in Hollywood cost the company $60 million. When union members at Tenet Healthcare voted to strike at 11 hospitals across California, the company's stock price tumbled 12.1 percent within only days.

We believe that pension funds need tools to protect their investments, from the costly and growing levels of labor unrest. To mitigate these risk, CalPERS should adopt labor peace language as a tool in the Responsible Contractor Policy and consider implementing the language in all contracts with firms that invest in industries that face potential strikes. We thank the Board for their -- for your steadfast commitment to protecting the retirement security of California workers and their families. We look forward to your continued leadership on this issue.

Thank you.

DAVID HUERTA: Good afternoon, Board members. My name is David Huerta and I serve as President of the SEIU United Service Workers West, which represents approximately 50,000 SEIU property service workers statewide. I would like to thank you today -- thank -- to thank CalPERS staff and trustees for your continued work and also the delay that you're going to be taking the vote on today to update the Responsible Contractor Policy.

As staff has said, the goal of this policy is to strengthen the long term sustainability of the fund and cultivate risk-intelligent decisions. SEIU has long been supportive of CalPERS RCP and we are glad to see that the proposed updates to the policy will exclude contractors debarred by local, state, or federal government and add language encouraging voluntary compliance in commingled funds and indirect investments.

As you may know, our members who clean major office buildings in California's major metro area just signed an agreement with their employers that recognizes their critical work. We know that many investors like CalPERS communicated with employers the importance of valuing this workforce. We are grateful for CalPERS understanding that the alignment of workers and investors is clear.

As to you for define the RCP, I encourage CalPERS to continue to dialogue with all stakeholders including workers and their representatives to enable the fund to mitigate risk and sustained returns. Our members know what is happening in the industries in which they invest in every day. Communicating with us can help protect the fund from risk and identify sustainable opportunities. Workers across the country are standing up for their rights. They expect to be treated with dignity and respect and as partners who create value in -- at their companies through their work. We encourage CalPERS to continue to consider new and innovative provacative precautionary measures to mitigate rigs.

Other government bodies, such as Los Angeles International Airport, have dealt with the risk provided by strikes and other aspects of labor disputes by requiring that its contractors show proof that they have labor peace agreements in place. While this example isn't a direct comparison, I encourage CalPERS to think of similar models to protect its investments from disrupt -- possible disruption of business as well as reputational and headline risk that drawn out labor disputes may pose.

We know that is expressed in your business practices, your Investment Beliefs, and your labor investment principles that you understand the clear alignment with workers being positioned to have safety, dignity, and security on the job, and your goals of sustainability and repeatedly invest -- and repeatedly investing to consistent drive fund performance and a health economy that will ensure benefits to plan participants for decades to come.

Thank you for your work and we look forward to continuing to work together to ensure CalPERS succeeds in its mission on behalf of the public servants of California.

Thank you.

CHAIR MILLER: Thank you for your comments.

Next, we'll have Michael Mark and then Jeremy Smith.

JEREMY SMITH: I'm actually Jeremy Smith.

Michael let me go ahead of him.

Thank you, Mr. Chair.

CHAIR MILLER: Rather gracious of you.

JEREMY SMITH: Yes, very gracious.

Thank you, Mr. Chair and members of the Committee. I appreciate the time today to address you on the Responsible Contractor Policy revision. We are pleased to be part of the stakeholder process and thank all of you and staff for their numerous hours of calls with us, and emails, and letter reading that we've put them through. We feel heard, and we feel included, and we look forward to continuing that process as we move forward. We feel that it is not ready for approval, as many of you today agree with primarily because the requirement to pay prevailing wage is not included. And I do associate myself with the State Building and Construction Trades Council of California -- I'm Jeremy Smith. I started in the middle there, I guess -- with previous comments from the Laborers International Union and other speakers.

The sheer size of CalPERS means that it really can be a force for pro-worker change. The recommendations we outlined in our letter and the numerous emails that I mentioned to staff in meetings will ensure that the RCP can act as that change and mirror what was intended by the

RCP.

According to CalPERS own Statement of Investment Policy for Responsible Contractor Program quote, "To hire contractors that support many of the ideals espoused by labor unions and encourage participation by labor unions and their signatory contractors in the development and management of CalPERS real estate and infrastructure investments. CalPERS believes that an adequately compensated and trained worker delivers a higher quality product and service." We could not agree more with CalPERS own policy. Issues such as wage theft, health and safety violations and poor quality construction are not readily apparent during a construction project and largely come to light only after the construction is complete, but happen primarily on projects completed by low-road contractors.

Violations such as those I just described and of the RCP create Investment risks for CalPERS as an asset owner. Wage theft, health and safety related deaths and injuries, project delays and construction defects are often not reported by workers for fear of reprisal may lead to fines and penalties by public agencies and litigation by end users.

These negative outcomes are financial risks that can eat away at a construction project's investment returns and can be difficult to mitigate once the problem has been allowed to develop. I also wanted to let you know about this term, "skill and trained worker." That is defined at Public Contract Code section 2600. There is a definition of that in statute that maybe we could refer to over these next several months. I appreciate that term has been used today and we want to make sure that you all know that it means a worker who has graduated or is currently in a State-approved apprenticeship program.

Is for these reasons today that we thank you for not voting to move forward and to encourage more collaboration between stakeholders and staff. It is important to know that we want to make sure the low-road contractors are not profiting off the backs of construction workers on your funded projects.

Thank you.

CHAIR MILLER: Thank you.

MICHAEL MARK: Good afternoon.

VICE CHAIR TAYLOR: You have to push the -- there you go

CHAIR MILLER: There it is. You got it. It's on.

MICHAEL MARK: We're on. We're live. Hi. My name is Michael Mark. I'm with Sheet Metal Workers Local 104. We cover the Northern California for our specific trade. We are proud members of the State Building Trades and affiliates.

So what I heard a lot today, and I think Board Member Pacheco stated it -- stated it very clearly is a policy RCP has the opportunity to create opportunities for apprentices, such as the ones from Rising Sun. If you do not have that mandate for prevailing wages, there is not an ability actually to create those opportunities. Those are the -- our community members. If CalPERS, throughout the State of California, our initial ask was for prevailing wage as a mandate, but our letter was actually let's actually do a mandate of prevailing wages for State of California, where -- which would be easier to be in effect, like what Controller Cohen stated.

So when we're talking about specific labor standards for State of California, we have that ability to rise above and do better. How can we create those apprentice opportunities? There's that chance there. I will say I appreciate staff listening to us, and -- but from that whole policy revisions not adopted. All of those were from our initial joint letter from all of the unions. We sent a letter that said, hey, these are things that we think would really benefit the state of California residents, mandating prevailing wage, making sure that the construction workers working on CalPERS' projects have health care, have a pension, have actually a fair living, which one of the studies that Jeremy Smith of the State Building Trades actually to sent CalPERS was the public cost of low-wage jobs in construction. There is actually a cost to that and associated to that when the construction workers aren't paying -- getting paid a living wage for your community. And what happens is is these low-road contractors that are taking advantage of individuals and then they become a burden on society, right.

So how do you get those people into a middle class job? Apprenticeship programs, union apprenticeship programs. That is the way -- the pathway, the other four year degree. And by mandating prevailing wages on CalPERS projects, at least in the state of California, you would be able to provide those apprenticeship opportunities. Again, I want to give a shout-out to the graduates of Rising Sun who spoke earlier today. They had their agenda items a little messed up, but how do you create opportunities for people like them, is by making sure there's a mandate for prevailing wages on CalPERS projects.

Thank you.

CHAIR MILLER: Thank you.

I think that completes our in-person public testimony on this items, so now we'll go to our phone callers.

STAFF SERVICES MANAGER I FORRER: Yes. Our first caller is Chris Houston from the International Brotherhood of Electrical Workers Local 952.

CHAIR MILLER: You're breaking up. We're very difficult. Could you start over and speak slowly.

STAFF SERVICES MANAGER I FORRER: We have Chris Houston with the International Brotherhood of Electrical Workers.

CHRIS HOUSTON: Are you able to hear me?

CHAIR MILLER: Yes, sir.

STAFF SERVICES MANAGER I FORRER: Yes.

CHRIS HOUSTON: Okay. I just want to say thanks for your time. My name is Chris Houston. I'm a business rep with IBEW Local 952 here in Ventura County.

I just want to say if there's a mandate on State prevailing wage projects funded by CalPERS that it would add additional apprenticeship opportunities for local California residents.

Thank you.

CHAIR MILLER: Thank you.

Next.

STAFF SERVICES MANAGER I FORRER: Okay. Yes. We have Evan Marrufo -- I'm sorry, Marrufo, from the

International Brotherhood of Electrical Workers.

Go ahead.

EVAN MARRUFO: Hi. My name is Evan Marrufo. I'm with the International Brotherhood of Electrical Workers here at Local 952 in Ventura County. I just want to say thanks for taking my call today and I wanted to make a comment saying that, you know, a mandate of our state's prevailing wage can provide additional apprenticeship opportunities for our residents here. We currently have an apprenticeship program through our union and prevailing wage allows us to send apprentices of to those jobs to work, to train, and to create a better life for themselves.

Thank you.

CHAIR MILLER: Thank you.

Next commenter.

STAFF SERVICES MANAGER I FORRER: Yes. We have Erik Estrada. Go ahead, Erik.

ERIK ESTRADA: Thanks for taking my call. I just want to touch on some mandates for prevailing wage for State of California projects. Obviously, it's kind of -- it will benefit the state of California residents, with your CalPERS portfolio and those participants, you know are part of our communities, and our members. And also, the State's prevailing wage again provides additional apprenticeship opportunities for our local residents. I want to thank you for allowing me to speak. Thank you very much.

CHAIR MILLER: Thank you.

Next commenter.

STAFF SERVICES MANAGER I FORRER: We have Nick Weathers, Helmets to Hard Hats.

Go ahead, Nick

NICK WEATHERS: Hey. Good afternoon. Thank you for everybody's time. My name is Nick Weathers and I am with the Helmets to Hard Hats Program. I just wanted to take a second to thank the trades, both nationally and here in California for their tireless work on apprenticeships.

I'm not sure if anybody on the Board there is familiar with the Helmets to Hard Hats program, but we're coming up on almost 50,000 veterans that we've helped transition into the union trade apprenticeships. And these careers are only available because of the apprenticeship standards and because of the work that the trades are doing to provide a career for service members when they come home. So I just wanted to say thanks for that and I appreciate everybody's time. And that's all I have. Thank you.

CHAIR MILLER: Thank you.

Next commenter.

STAFF SERVICES MANAGER I FORRER: Next, we have Manuel Pinero from Monterey Santa Cruz Building Trades Council.

MANUEL PINERO: Well, good afternoon. Can you hear me? Good afternoon. Can you hear me? Manuel Pinero --

CHAIR MILLER: Yes, sir.

MANUEL PINERO: -- Monterey Santa Cruz County Building Trades.

Okay. First of all, I want to thank all of you for having the courage to go back to the drawing board and iron out these ambiguities. Like the one member of your board there said, pasta al dente is the only way to go. So when we get the pasta al dente, you're going to be doing great, especially you're one of the largest pension -- public pension funds in the United States. You're going to lead by example.

Prevailing wage is very important and needs to be mandated. These apprenticeships that the unions provide is because of prevailing wage. The future of these young people they have to carry the torch. It's really important and by having the correct language and everything correctly done, we reach pasta al dente and can all say Che La Luna. Thank you for your time, consideration, and let's go back to the drawing board. We thank you again.

CHAIR MILLER: Thank you.

Do we have any more callers?

Okay. Next caller.

STAFF SERVICES MANAGER I FORRER: Yes, we do, Chair Miller. We have ray Anne Marie Otey from Los Angeles Orange County Building and Construction Trades Council.

ANNE MARIE OTEY: Hello. This is Anne Marie Otey. Can you hear me?

Hello.

STAFF SERVICES MANAGER I FORRER: Yes, we can hear you.

ANNE MARIE OTEY: I'm sorry. Can you hear me or not?

CHAIR MILLER: Yes, ma'am.

ANNE MARIE OTEY: Hello. Okay. Great.

This is Anne Marie Otey representing 150,000 skilled men and women who are the members of 48 local unions and District Council for Los Angeles and Orange Counties Building and Construction Trades Council. We also, like our brothers and sisters who have spoken before appreciate very much your decision to bring the facts for more debate and discussion, and especially research on a third reading. We strongly support our State Building and Construction Trades Council's stance that prevailing wage is an integral part of this policy for responsible contracting.

I wanted to address a couple of specific questions that some commissioners had, for example, on the issue of nationwide in relation to prevailing wage, state of California prevailing wage versus that in other states. As you know, some states require prevailing wage, some do not, but every state is subject, of course, to the federal Davis-Bacon prevailing wage for when there Is federal money involved on projects. And we are able to work very, very closely with our nation building trades on multi-state projects that bring in both prevailing wage and various local prevailing wages. So that definitely is not an obstacle to having a CalPERS policy that would involve investments in projects outside of California.

We also can present companies lie (inaudible), AFL-CIO Housing and Investment Trust, which again, like CalPERS, takes pension money and use them for investments, and in their case follow completely union building standards. So it has been done and the record is very, very good.

One other thing that I would add is that you're saying this is only the third effort at revision since the early 1990s. And since the early 1990s, there has been a sea change in the amount of public-project labor agreements that the building trades are involved in, especially in California, arrangements with all kinds of public entities from LAUSD, to our community colleges, to LA County's Metropolitan Transportation Authority for billions of dollars in work. We have been able to negotiate agreements that bring prevailing wages and union wages to a very, very diverse workforce.

The very last point I'll make is again appreciating our Brothers and Sisters at Rising Sun. In LA and Orange County alone, we have two dozen apprenticeship readiness programs, which are preparing people just like the individuals who spoke to you for their future careers in union construction. So this implementation by CalPERS will only help them and therefore really all of us in making a more just society with better conditions for construction workers.

Thank you very much.

CHAIR MILLER: Thank you very much.

Do we have any more callers?

BOARD CLERK ANDERSON: (Two fingers).

CHAIR MILLER: Two more. Okay.

STAFF SERVICES MANAGER I FORRER: Yes. We have Jeffrey Bree from Iron Workers Local 433.

JEFFREY BREE: Good afternoon. My name is Jeffrey and I'm here to speak on behalf of the Los Angeles Iron Workers Local 433. Ensuring fair wages for workers is a crucial aspect of holding social responsible and ensuring economic stability. Implementing prevailing wage requirements for jobs over 50,000 in value within CalPERS not only guarantees fair compensation for labor, but also promotes overall workforce well-being. By mandating prevailing wages, CalPERS can help combat income inequality, uphold living standards, and support local economies.

Fair wages not only benefit individual workers and their families, but also contribute to a stronger, more sustainable community. Embracing prevailing wage policies, aligns with principles of equality, dignity, and prosperity for all workers making it a worthwhile and ethical practice for CalPERS to adopt.

Thank you for your time.

CHAIR MILLER: Thank you.

Next caller.

STAFF SERVICES MANAGER I FORRER: Yes. This is our last caller for this item. James Darryl from California State Council for Laborers.

JAMES THUERWACHTER: Thank you. Good afternoon. This is James Thuerwachter with the California State

Council of Laborers. We represent about 80,000 men and women throughout the state and we build California's water, energy, and transportation infrastructure. For the sake of time, I will just say that I align my comments with those made by my colleagues from the State Building Trades and from LiUNA. I just want to add that the need for stronger labor protections and prevailing wage requirements cannot be overstated. We strongly encourage the Board to heed our concerns and adopt the recommendations at the appropriate time. We look forward to working with you in the future. Thank you so much.

CHAIR MILLER: Thank you. I believe that concludes public comment on Item 6c, so we'll move on to 7a, summery of Committee direction.

CHIEF EXECUTIVE OFFICER FROST: So I noted two. The first one related to potential violations in our labor principles and having a tracking system and a reporting system that comes to the Board on a regular basis will determine the pace of that.

And then the second was related to RCP and that is to work with the Board President and the Investment Committee Chair to look at the ability to expand Labor Principles into non-core and infrastructure and to do a market assessment on those implications, if any.

CHAIR MILLER: Okay. And that brings us to 7b, public comment. I do have a few more potential public commenters.

And the first gentleman I believe was up before, but turned in two sheets. I want to make sure they get their opportunity if they wanted to speak again. Mark Swabey for Item 7b. Do you have anything more?

MARK SWABEY: No.

CHAIR MILLER: No. Okay. Thank you.

Jessa Rego.

Welcome. You'll have three minutes. After you being to speak, the timer will start.

JESS REGO: Thank you. Okay. Thank you very much. Good afternoon, President Taylor, Chair Miller, Committee members, and designees. My name is Jessa Rego. I am here as a member, a State scientist. And on behalf of a group of State workers who are concerned about the incompatibility of some of our investments with the social pillar of environmental, social, and governance integration, including human rights, health and access to medicine, activities in conflict zones, and controversial weapons.

We have identified 43 CalPERS holdings whose business is tied to current internationally recognized human rights violations by military occupations. Not only are these morally reprehensible, but we consider them financially risky as well. We urge CalPERS to divest from these entities. We would like to point out that CalPERS has already stopped investing in several companies based on past Board decisions, such as the tobacco industry and certain gun manufacturers.

We are reaching out to the Stakeholder Relations Team and will continue to research and advocate for a secure, responsible, and phased divestment strategy. To start with, we urge the Committee to prioritize the divestment from Elbit Systems, not only for its poor performance, but also for its involvement in war crimes. In recent years, Elbit has not beat the market. In 2023, return on invested capital has gone down from low teens, around 11 to 13 percent, to eight percent, driven by operating margins, declining by 250 basis points over the same horizon.

Additionally, in the past year, Elbit did not have positive free cash flow. CalPERS remains invested in this company at risk to its shareholders. And for what? Elbit manufacturers several weapons that are largely banned or considered particularly controversial for being used in war crimes. These include weaponize white phosphorus, flechette projectiles, and cluster munitions. Cluster munitions are banned by 110 states because they kill and maim civilians and, like landmines, can remain deadly years after a conflict is over.

Because of this, Elbit is subject to a recent investment ban by the $200 billion Australian Sovereign Wealth Fund. Furthermore, Elbit is also the target of persistent destructive activism with videos of physical attacks on its buildings shared widely on social media. Within the last few years, this has led to the permanent closure of one factor and its London headquarters.

Around the same time, Elbit lost two contracts with the UK Ministry of Defense contracting totaling $440 million. As public sentiment for war profiteering degrades more and more quickly, Elbit will only become more and more risky. We urge you, in addition to the climate and labor issues discussed today, to put California's money where our mouth is with respect to human rights as well. None of us is enriched and no one -- no real security is attained by gambling on the violation of another human's life, health, or dignity.

Thank you very much.

CHAIR MILLER: Thank you.

And I believe that's all the in-person we have. We have two more phone callers it looks like. Okay.

STAFF SERVICES MANAGER I FORRER: Yes, Chair Miller. We have Jonathan Weissman.

Go ahead, Jonathan

JONATHAN WEISSMAN: Hi. This is Jonathan Weissman. I'm a State worker and active CalPERS member. I, along with Jess and many other CalPERS members are concerned about CalPERS investments in unstable and unsustainable international equity funds invested in war crimes. CalPERS holds many of these assets that are an active threat to global safety and a threat to CalPERS own ESG goals.

First among these assets is Elbit Systems. Elbit Systems is a weapons manufacturer that provides banned weapons used in internationally recognized war crimes, such as white phosphorus and cluster munitions used in various regimes around the world.

(Inaudible). In the past, CalPERS has divested from other companies that harmed the welfare of its members and their families, such as tobacco and firearms companies. As of the last report, CalPERS holds 133,000 shares of Elbit with a market value of roughly 30 million. This is a tiny portion of CalPERS overall roughly 80 billion in international public equities. It also hasn't performed well. Its operating margins have declined over the past few years and it has been behind all the market benchmarks in its sector.

To deploy investments and remaining invested in this fund comes at the expense to both the shareholders and the world. Other major investment firms, such as Deutsche Bank's 1832 Asset Management have already begun divesting from Elbit. In 2023, 1832 held over four percent of Elbit, one of the largest stakes. Last month, they halved their investment. I think CalPERS should follow suit. I urge the Board to reconsider their investment in international arms manufacturers, in particular Elbit Systems Limited, whose long-term growth is dependent on increased international instability and war.

Global public equity will be discussed in the closed session today and I expect to hear these issue addressed at the next public meeting, which we will show up to.

Thank you for your time.

CHAIR MILLER: Thank you.

Next commenter.

STAFF SERVICES MANAGER I FORRER: Yes, Chair Miller. We have Anne Hillborn.

ANNE HILLBORN: Hi. My name is Anne Hillborn. I'm a State scientist with a public agency here in California. And I am coming to you as part of a group of State workers who are concerned about CalPERS investing in companies or entities that are producing hardware, software, technology, et cetera that is directly involved in war crimes.

My colleagues, Jessa and Jonathan, have talked about these investments do not line up with ESG. I specifically request that CalPERS divest from Elbit Systems. And I support those requests for the reasons that have been mentioned.

I recognize that the primary consideration that CalPERS takes when making investments is financial. And Jessa talked about that aspect of the investment with Elbit, as did Jonathan. However, today Committee members have talked about the importance of not just considering the financial benefits of investments, but also doing good with them, as we heard about with the apprenticeship opportunities. To me, a lower bar than doing good with investments would be to make sure that investments do not directly contribute to the violent deaths of tens of thousands of civilians in active conflict zones.

As a stakeholder in CalPERS, I do not want my contributions to CalPERS to be invested in entities that produce weapons used to bomb civilians in their homes and bury them in rubble. There must be a way to fund the retirement of California State workers that does not involve investing in entities that are actively part of war crimes.

My colleagues and I look forward to working with this Committee to get CalPERS investments more aligned with ESG goals and to divest from certain entities including Elbit Systems. Thank you for our time and the opportunity to speak today.

CHAIR MILLER: Thank you.

Do we have any other public comments?

Nope. That concludes public comment.

STAFF SERVICES MANAGER I FORRER: No more callers.

CHAIR MILLER: Okay. Well, we're going to recess and we'll take a break.

Okay. At this point, we'll recess now into closed session for Items 1 to 6 from the closed session agenda. We'll immediately reconvene in open session after the closed session and we'll take a 10-minute break somewhere therein. So thank you all. Appreciate everybody being here, and all your patience, and contributions.

Thank you.

(Off record: 4:11 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 6:42 p.m.)

CHAIR MILLER: Okay. We're back in open session having closed closed session.

Hearing no objections, we are adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 6:42 p.m.)

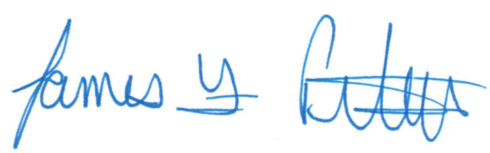
CERTIFICATE OF REPORTER

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 15th day of June, 2024.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
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