MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, SEPTEMBER 16, 2024

9:15 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chair

Theresa Taylor, Vice Chair

Malia Cohen, also represented by Deborah Gallegos

Fiona Ma, represented by Frank Ruffino

Lisa Middleton

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Yvonne Walker

Mullissa Willette

Dr. Gail Willis(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Stephen Gilmore, Chief Investment Officer

Don Moulds, PhD, Chief Health Director

Fritzie Archuleta, Deputy Chief Actuary

Daniel Booth, Deputy Chief Investment Officer

Peter Cashion, Managing Investment Director

Drew Hambly, Investment Director

APPEARANCES CONTINUED

STAFF:

Simiso Nzima, Managing Investment Director

Arnie Phillips, Managing Investment Director

Christine Reese, Investment Director

Lauren Rosborough Watt, Investment Manager

ALSO PRESENT:

Erika Aritonang, AFSCME, Local 3299

Natisha Booker, AFCSME, Local 3299

Eileen Boughton, Service Employees International Union, Local 1000

Diana Cassady, Third Act

Steven Dadaian, California Department of Transportation

Enrique de Leon

Yvette DiCarlo

Jason Opeña Disterhoft, Majority Action

Megan Elsea

Christ Fields, Meketa Investment Grou.

Steve Foresti, Wilshire Advisors

Dan Fuchs, CASE

Xochil Garcia

Stephen Goldsmith

Steve Hartt, Meketa Investment Group

APPEARANCES CONTINUED

ALSO PRESENT:

Linda Hayward, Third Act

Anushka Kalyan, Third Act

Jonathan Karpf, California Faculty Association

Ali Kazemi, Wilshire Advisors

Ally Lindstrom, Sierra Club

Michael Mark, Sheet Metal Workers Local 104

Steve McCourt, Meketa Investment Group

Patria Mendoza, ACCE

Barbara Pinto, ACCE

Danielle Roland

Frank Ruiz

Glayol Sabba, MD, Third Act

Judith Small, Third Act

Mark Swabey

Sara Theiss, Fossil Free California

Sheila Thorne

Khrizia Velacruz, Oil and Gas Action Network

Michael West, State Building and Construction Trades Council

INDEX

PROCEEDINGS

CHAIR MILLER: Okay. Good morning. I'd like to call this meeting of the Investment Committee to order.

Oh, one second. Oh.

And it's good to see everybody here. And our first order of business will be the 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.

ACTING BOARD MEMBER GALLEGOS: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Lisa Middleton.

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK ANDERSON: Eraina Ortega.

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK 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. Wail Willis?
COMMITTEE MEMBER WILLIS: Present.
CHAIR MILLER: Morning. 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. So at this time, I will ask each Board member who is remote to verbally attest accordingly. And please conduct the roll call attestation.
BOARD CLERK ANDERSON: Dr. Gail Willis?
COMMITTEE MEMBER WILLIS: I do attest to the fact that I am alone.
CHAIR MILLER: Thank you.
Okay. Moving along to our executive report.

Chief Investment Officer briefing.

Ms. Frost.

VICE CHAIR TAYLOR: Chief Investment Officer.

CHAIR MILLER: Oh, Chief Investment Officer.

(Laughter).

CHAIR MILLER: Mr. Gilmore.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. I just wanted to make a few comments on my welcome and some initial thoughts that I've had since starting. So now I've been in place just over two months and time has gone by incredibly rapidly. And I'm just spending a lot of time listening, meeting with folks. And I think when I first spoke to the Board, it was my second day in this seat and I described the very warm welcome. That was at the personal level. And temperature wise, temperature has cooled down, but the personal welcome has continued. That's the various Board members I've met, my colleagues across CalPERS, the enterprise, and also people of Sacramento. So I've really enjoyed that.

I talked about listening, which has been a key thing for me in the first couple of months. And I've been very impressed with people's enthusiasm. One of the outstanding events that I attended early on was our Culture Club. And this is an internal initiative where people have gotten together and they have focused on how to improve engagement across the organization, focus on the Investment team in this case.

And that particular, I guess, event we had internally, we met for about an hour and a half, and the team got to talk about various experiments that they had focused on. And those experiments covered things like talent development and learning. They covered things like getting to know one another better, sharing ideas, recognizing people, and so a number of initiatives. But I was really quite blown away by the, I guess, the enthusiasm of the team. That whole area of focus, which is on talent development people is a core part of what we're focusing on at the strategic level. And Michael and I will talk about that when we talk about the strategic initiatives later.

Another area for me is technology. And that's about empowering our people, being able to do things that are a bit more innovative. It's also about doing things more efficiently and reducing risk, and you'll hear about that tomorrow.

The third area of focus, and probably the one that's of, I guess, most enduring - I'd say focus for me - is asset liability management, because over the period between now and the end of next year, we'll be talking about the overall positioning of the portfolio to achieve the objectives that we -- that we set out to achieve. So what we have been doing is getting together with the Actuary's Office, Scott and the team, along with Investment, and sitting down and trying to understand where each of us is coming from, trying to understand the liabilities, trying to understand the assets better. So we've had a couple of informal sessions and those sessions will continue through the period ahead.

We've also spent some time looking at the structure of the Investment team. And I've actually asked my colleague Michael to take on some more responsibilities to oversee all of the enabling functions. So he now has responsibility for operations, technology, strategy within the Investment team. That frees Dan up a little to focus more on the investing activities. So that's, you know, for me was a -- was a logical move.

I've also been thinking about the number of meetings we have within the team. And we have too many, so we've kind of condensed those. When Nicole was here, she set up some internal governance teams, three committees that would meet weekly. We're now meeting every fortnight. I don't think we'll lose anything by that. In fact, I think it will help us focus more on what's important.

With those comments, looking ahead to the rest of today, we have a number of items. We have an action item on long-term care and we have several information items. Those information items include the annual trust level review, which I'll present along with Lauren, and we have capital markets reviews, fixed income, and equities. And as I mentioned, we also have a strategy discussion that Michael and I will lead.

But the main item first up is an action item, which is the Long Term Care Program. This is the first of a two-part session. Today, we'll be talking about our recommendation on the portfolio that we're recommending. And then tomorrow there will be further discussions on that particular fund.

That's it from me for now.

CHAIR MILLER: Okay. Thank you.

That brings us to our action consent items.

What's the pleasure of the Committee.

COMMITTEE MEMBER PACHECO: (Hand raised).

CHAIR MILLER: Moved by Mr. Pacheco.

VICE CHAIR TAYLOR: (Hand raised).

CHAIR MILLER: Seconded by Ms. Taylor.

Any discussion on the item?

No. Don't need to vote. Action consent, so we will --

BOARD CLERK ANDERSON: Yes.

CHAIR MILLER: -- move on to --

VICE CHAIR TAYLOR: You do need to vote.

CHAIR MILLER: Oh, we do need to vote. Okay. So we've got our new voting system here, so --

BOARD CLERK ANDERSON: So Dr. Willis is online, so we will need to do a roll call vote.

CHAIR MILLER: Oh, okay. Well, let's call the roll then.

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: 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: Aye.
BOARD CLERK ANDERSON: Dr. Gail Willis?
COMMITTEE MEMBER WILLIS: Aye.
CHAIR MILLER: Okay. That brings us to our information consent items. I haven't had any requests to pull them, but I do have a public comment for Item 4D and 4D.
So at this time, we'll take that public comment and then we'll dispense with the information consent items.
STAFF SERVICES MANAGER I FORRER: Yes, Mr. Chair. We have Steven Dadaian, from the California Department of Transportation.
Go ahead, Steven.
STEVEN DADAIAN: Hi, folks. I appreciate you providing me the opportunity to be heard as a beneficiary and a member of CalPERS. I'm also a member of the Armenian Bar Association. And we've written the Board, as well as the Investment Committee, about concerns we have regarding risky investments that CalPERS has involving possible concerns regarding our ESG principles. And those investments are in the southern pipeline -- basically very controlled oil industries -- Azerbaijani controlled oil

industries. Those concerns have been raised in a letter -- a couple letters that we sent to you, and Chairman Miller has received at least one of those letters. And I think we had a meeting with you about some of our concerns regarding the human rights violations, war crimes committed by Azerbaijan and how these investments may be supporting those are crimes.

In addition to that, it has -- it has become clear that those oil investments that CalPERS has to the tune of about $170 million in the state oil company of Azerbaijan, as well as the Southern Pipeline Joint Stock Company, that those institutions are being directly used by Russian oil companies to evade the sanctions regime that have been imposed by the United States government, specifically relating to the Office of Foreign Asset Control and the two Executive Orders issued by the Biden administration. That's executive order 14024 and 14114, which relate to providing material support and financial support that are -- is being used to continue to perpetuate Russia's war against Ukraine.

And specifically, there was a investigation that was published in the Wall Street Journal in February of this year indicating that those two oil concerns in Azerbaijan are being directly used by Russian oil -- basically to divert Russian oil through Azeri pipelines and transport networks into foreign markets. And that money is being used directly by Russia in support of its illegal invasion of Ukraine. Our concern is specifically that, you know, we have -- we should not be investing in companies, and entities, and foreign states that are implicated in war crimes. Not only the --

CHAIR MILLER: Okay. And if you could kind of wrap up your comments, because your time is running out.

STEVEN DADAIAN: Okay. So the letter we previously talked about ethnic cleansing that Azerbaijan was undertaking against its Armenian minorities in Nagorno-Karabakh and the invasion of Armenia, as well as now, which has become apparent, the funneling of Russian oil into foreign markets through those two concerns that CalPERS is invested in to the tune $170 million.

So my --

CHAIR MILLER: Okay. We're going to have to cut you off. We've been appreciate your comments and we've received your letters. And thank you for joining us today. Your time has more than run out.

Okay.

STEVEN DADAIAN: Thank you. I hope you consider this.

CHAIR MILLER: Thank you.

Okay. And so that covers information consent items. I'm not seeing anymore requests to pull anything from the Board.

So at this time, because today we're anticipating -- and we've got lots and lots of public commenters. So we're going to be doing -- we'll be taking the public comments for the action agenda items before we go through all the items, so that we can get people's comments and get them out. We're going to be doing one minute comments. Your time will begin running when you start to speak -- when you come up, start to speak, identify yourself. And the time will be running. You'll see it displayed. And we'll just go ahead. If you haven't -- if you're here to speak and you haven't filled out the form, please do so and we'll take them in the order. I've got them here.

So I guess without further ado, we'll start with public comments on our action agenda items. So the first person I have is Sheila -- okay. Yeah. We'll call three at time to come down. Sheila Thorne, Dan Fuchs, and Megan Elsea are our first three commenters. And come on down and we'll have live mics over here to my left, your right.

SHEILA THORNE: Morning. My name is Sheila Thorne. I'm a CalPERS member and a member of CFA, retired, and a member of FFCA.

Exxon was caught on tape saying that a carbon tax was a great talking point that gives cover to Exxon, because it would never happen, because it would take political courage. I know you are well aware of Exxon's long history of deception starting 50 years ago when it lied about -- when it knew that the impact of its product on the climate and it lied about it.

Because you have engaged with Exxon for almost four decades, they are assuming that you, like the rest of the world, will continue being there patsy allowing yourselves to be manipulated, do not have the political courage, as the Exxon official sneered. Will you have the political courage? You have that chance by exiting Exxon now.

CHAIR MILLER: Thank you.

Next commenter is

DAN FUCHS: Good morning. Thank you for taking our comments. My name is Dan Fuchs. I'm a CalPERS member, a member of CASE. I'm 59 and I've lived in California my entire adult life. In just that time, I've seen firsthand the effects of climate change that result from fossil fuels. There used to be tule fog. Do we remember tule fog? We've also seen wider swings in dry and rainy years. Increasing wildfires. When I first started working for the State of California in 2007, the Moonlight Fire was a horrendous top 10 fire. Now, it's disappeared in the list of fires, because our wildfires are so enormous. This is all the result of climate change that results from the burning of fossil fuels. And it is unconscionable for CalPERS to continue to invest my money in perpetuating the destruction of my great state that I hope to retire in in just a few years.

Exxon in particular has been egregious, and divestment from Exxon in particular is urgent now to address the climate emergency.

Thank you.

CHAIR MILLER: Thank you.

Next commenter.

MEGAN ELSEA: Good morning. My name is Megan Else. I'm a member of CalPERS recently retired. It was almost a week of over 110 degrees in Sacramento this summer. My son suffers from mental illness and addiction and he is currently homeless. And he has had to live in that heat and now in this strange rain in September.

For the past -- in about the past 20 years, extreme weather has caused about $2.8 trillion in damages. That's trillion with a T and all that is a result of greenhouse gases, a lot of which is from Exxon.

Now, engagement doesn't work. You can engage with McDonald's to have them use a different kind of cup, but you can't engage with McDonald's to have them stop cooking burgers. So we need to disengage from Exxon to exit Exxon to protect my pension, others' pensions, and humanity

Thank you.

CHAIR MILLER: Thank you. Next three commenters will be Yvette DiCarlo, Linda Hayward, and Judith Small.

LINDA HAYWARD: Hello. I'm Linda Hayward, resident of Sacramento, a beneficiary of my late husband's CalPERS pension. In my lifetime, I've seen what fossil fuels have done to our environment and that's why I'm doing what I can to leave a livable planet to my grandchildren's grandchildren. I'm striving to be the ancestor that they deserve.

There are two of many scary things I worry about that will affect everyone. One is a certain chaos and violence that will ensue when populations are dispersed by climate disasters and there's competition for livable space. The other is our food supply. As a gardener, just this summer I learned and experienced how excessive heat hinders food production. When there are too many extremely hot days tomatoes, beans, and other foods don't pollinate and produce

How will we feed everyone? Let's be proactive and solve this before it's too late. Please end fossil fuel investments.

CHAIR MILLER: Thank you.

Next commenter, please.

YVETTE DiCARLO: Good morning. My name is Yvette DiCarlo. I live in Sacramento and I've been a CalPERS member since 1994. For 16 years, I worked for the California Air Resources Board, as well as the Air Quality Management District in the Bay Area.

I'm the only pensioner in my family, so CalPERS is a critical part of our financial plan. And you'd think I want CalPERS to always maximize its net returns regardless of the source. But when it comes to fossil fuel investments, particularly Exxon, it's well past time to divest. As a society we've been directly paying for Exxon's environmental messes for decades. And now, we're experiencing their very costly externalities, such as skyrocketing premiums and home cancellations from home insurance, more and more communities having to rebuild based on ravaged -- you know ravaged -- being ravaged by wildfires and flooding, more travel disruptions, coastal homeowners are now having to buy AC units that they didn't five years ago. Rising temperatures are making my husband and I think about moving to an affordable place to avoid heat-related illnesses.

Simply put, Exxon is a liability. You should put that on that side of the ledger and not just as an asset that you may have previously thought they were. There's a reason that California is suing big oil. Other states and entities are starting to win settlements and lawsuits. And the New York Times just ran an article about the surge of lawsuits against fossil fuel companies. Does the CalPERS Board really want to aid and abet these criminals? It's well past time to divest from Exxon, so please start with an immediate end to all new bond investments.

Thank you.

CHAIR MILLER: Thank you.

Next commenter, please.

JUDITH SMALL: Good morning. My name is Judith Small. I'm a retired high school teacher. I live in Berkeley and I'm a participant in CalSTRS, not CalPERS, so like a cousin in the same family. I'm also the grandmother of four little girls, the oldest of whom is 7. My most fervent wish for Sibley[phonetic] and Layla[phonetic] and for Layla's twin sisters, Aisha[phonetic] and Alima[phonetic], is that when they come into adulthood they will be able to live in a world that bears some resemblance to the world I've come over 74 years to know and fiercely love. Yet, my greatest fear for them is that in the next 10 years or so, this same world will slipping away, change beyond recognition by the ravages of climate change unchecked.

Engagement was a worthy course, an important course to test and try. And you have tried. We know you have tried. God knows you've tried. But engagement isn't working and time is running short. Time is running short for the members of CalPERS and for all the people of California, for all our children, and for my children, for my four granddaughters. So I'm here to say to the Board that it's time to stop trying and start leading. It is high time for CalPERS to exit Exxon.

Thank you.

CHAIR MILLER: Thank you.

Next, we'll have Diana Cassady, Glayol Sabba, and Anushka Kalyan.

DIANA CASSADY: Good morning, members of the Board and the staff. My name is Diana Cassady. I lead Third Act Sacramento, which is a group of elders who are deeply concerned about climate change. And I'm here to urge you to exit Exxon. Exxon is a terrible company. We know that we've experienced the hottest summer ever. We thought that was true in 2023 and 2022, and yet, probably next summer we'll break the record. And it's because of Exxon and its continued expansion of oil and gas fields that we're experiencing this terrible heat and wildfires. Even in 2021, the International Energy Agency said there should be no more new drilling. We had enough oil and we really needed to transition.

Secondly, what company sues its shareholders? That behavior is absolutely outrageous and it's shocking that we would tolerate that.

And finally, I'm a retiree of the University of California system and we divested our pension fund from oil and gas in 2020 and I believe that the CalPERS Board can do the same.

Thank you.

CHAIR MILLER: Thank you.

Next commenter.

DR. GLAYOL SABBA: Good morning. My name is Dr. Glayol Sabba. I'm a family physician retired and practiced 30 years in Sacramento. And I'm here to -- I also belong to the Third Act Sacramento. We just had a discussion at our book club last night and a friend said, what is it going to take for people to realize we are in a climate crisis?

And let me just name a few things to help you. The -- it's called the AMOC current, the Atlantic Meridional Overturning Current[SIC], which is the Gulf stream. It is possible that it could collapse by 2025. Stopping, basically could affect every person on this planet if the GHG emissions continue in their current path. This is from the journal Nature.

I can list a lot more, but I also want to list the fact that there is the precedent that CalPERS, around the time of divestment from South Africa, did so. And you might think what could one organization -- what could be the effect of it? Well, it's the ripple effect that this powerful entity such as CalPERS could, by making that decision at this point, realizing that all of our children, all of species on this earth are at risk, that you could make the difference, because you could be the -- like the domino effect, the first domino. And once you set it off, the rest of the people will follow. So please consider your children, if no one else, and their -- and your grandchildren. Thank you.

CHAIR MILLER: Thank you.

Next commenter.

ANUSHKA KALYAN: Hi, everyone. My name is Anushka Kalyan and I'm a 17-year old high school senior from Sacramento. And because it's a Monday morning, I should be in school right now, if you can't tell. And it has gotten to the point where the climate crisis has become an issue that is affecting us at such a deep level, where we have to skip school in order to really make a difference.

So I grew up having been -- having hiked in the Northern California forests and things like that. And in the most recent years with California wildfires, I've really, really seen the difference that rampant climate change can have an effect on today's youth. And that's why I'm here today to really make sure that my future is in the hands of all of you. And it's really important that we take our lives into account when making future decisions. So it is about the oil and gas industry, which has clearly been shown to have a detrimental impact on our economy and also the climate.

Make sure to take the youth into account, not just because I'm here in this room, because -- but because there are many other youth who aren't here who need to make their voices heard as well.

Thank you.

CHAIR MILLER: Thank you.

And the next three -- and when I call, all three of you can come down and take a seat. We'll -- we can turn on the different microphones as you speak, so you don't have to wait.

So Eileen Boughton, Sara Theiss, and Jonathan Karpf.

EILEEN BOUGHTON: Do I hit the green button? Can you hear me?

CHAIR MILLER: Yep, we can hear you.

EILEEN BOUGHTON: Good morning. Thank you. My name is Eileen Boughton. I am an indigenous woman. I am an officer of SEIU Local 1000 and I have a pension with CalPERS.

I'm here to say I would like CalPERS to divest from Exxon and to also divest from all fossil fuel. All this Exxon and fossil fuel impacts the indigenous communities all across Turtle Island, the damage it causes to Mother Earth and to our families around there, also causes great harm to bring about MMIW, which is the Missing and Murdered Indigenous Women and People. The work that is being done by these people when going into our lands is harmful, and it needs to stop. So I would like to ask Exxon to stop -- I mean, I would like to ask CalPERS to stop their investment in Exxon and in fossil fuel.

Thank you.

CHAIR MILLER: Thank you.

Thank you. Next commenter, please. You can --

SARA THEISS: Well, my name is Sara Theiss. I am a satisfied CalPERS retiree and a member of Fossil Free California. And some of you have been hearing me up here for like since 2019. So I thought today instead of hearing from me you could hear from the New York City Comptroller, the Head of ESG, John Adler.

And as you might know, three of New York City retirement systems completed a major divestment last year, just under four billion in publicly traded fossil fuel securities, both equities and fixed income. And now starting last year, they've also included exclusion of upstream oil and gas private markets.

So this is what Mr. Adler said, quote, "Major fossil fuel exploration companies do not have a net zero plan and so the stranded asset risk is very high. That's why we divested from them. Asking them to stop is like asking Starbucks to stop selling coffee. Oil is Exxon's business. They do not want to stop."

Thank you.

CHAIR MILLER: Thank you.

Next commenter, please.

JONATHAN KARPF: Hello. My name is Jonathan Karpf. I'm the Chair of the Retired Faculty Committee of the statewide California Faculty Association. I've been a member of CalPERS since 1990. Now, I'm a retiree.

As -- so when you tried engagement by voting against the 12-member of Exxon, it was all for naught, because it has been mentioned repeatedly, engagement is never -- has and never will dissuade a corporation from doing its core function. Exxon is clearly a bad actor. We are living in a climate change world that is an existential crisis for all human beings as well as all other -- all other living things.

I respectfully ask you to divest from Exxon and to shift the proceeds from that sale to either sustainable energy production or some other non-oil producing, non-fossil fuel stock. Thank you very much.

CHAIR MILLER: Thank you.

The next three commenters are Natisha Booker, Danielle Roland, and Elrika Aritonang.

NATISHA BOOKER: Good morning. My name is Natisha from UC Davis and I am representing AFSCME Local 3299. As a public sector union member, I reply -- excuse me, rely on my retirement security after years of hard work, but I'm worried about our investments in public sector retirement programs, especially our State in companies like Exxon. Exxon has a history of environmental damage and harmful practice, poisoning a risk to our retirement. They're still drilling, expanding fossil fuels, and hidering -- excuse me, hindering progress of renewal energies. It's not right for our retirement funds to be tied to a company that jeopardized our planet's health. We need CalPERS to divest from Exxon and prioritize our future.

Thank you.

CHAIR MILLER: Thank you.

Next commenter.

ELRIKA ARITONANG: Good morning. I am Elrika and I am a proud member of AFSCME Local 3299 and work at UC Davis. As a public sector worker, I'm worried about CalPERS investment, especially its engagement with Exxon. Their impact on our community, the environment, and retirement security is concerning. Climate change, like wildfire and rising temperature, is linked to the oil and gas project Exxon supports. Despite claim that engagement will make a difference, Exxon is not changing. They are still drilling and hindering renewable energy project, putting our community and the planet at risk. Their action jeopardize our public retirement security. We need CalPERS to prioritize a future that safeguard our environment and retirement security.

Thank you.

CHAIR MILLER: Thank you.

Next commenter, please.

DANIELLE ROLAND: Hi. My name is Danielle Roland of Yuba City. I'm an active CalPERS member. I work at Department of Water Resources, speaking for myself not them, of course, and I'm a member of Professional Engineers in California Government. CalPERS must divest from Exxon. The burning of fossil fuels is the leading course -- cause of global warming. Exxon may appear profitable on paper, but you need to take into account the following costs that CalPERS members have to pay because of Exxon. One is rebuilding houses that have been destroyed in wildfires and floods, heat-related illnesses and deaths, illnesses from poor air quality, and the emotional toll of paying for our retirement with our children's future. Because of Exxon, they will have to fight for food, water and air. Last comment is this is the hottest year on record and it will be the coolest for the rest of our lives.

Thank you.

CHAIR MILLER: Thank you.

The next three commenters, Patricia Mendoza, Barbara Pinto, and Khrizia Velacruz.

PATRICIA MENDOZA: Hi. Good morning. My name is Patricia Mendoza. I am a member of ACCE. In 2021, blackstone acquired -- and I'm talking about Blackstone. We all know who Blackstone is, the greedy monster of the world. Blackstone acquired 5,800 rental units in San Diego -- in the San Diego area. That's my home town. Since then, Blackstone has raised the average rent on these units by $650 a month. That's a 38 percent increase, almost double the average rent increase for all apartments in San -- in the San Diego market. And now, Blackstone has hand picked property management company has implicated -- has been implicated in a national pricing fixing scandal. I know everyone has heard about it. Over -- and if you haven't, I'm telling you now. Over 30 lawsuits have been filed over this issue, including the U.S. Justice Department.

To quote the San Diego Board of Supervisor Member Terra Lawson-Remer, she said, "We know the Blackstones of the world. The Wall Street investors of the world are deliberately fixing prices and colluding to drive up rents. It's illegal and it has to stop."

I'm also a statewide organizer with ACCE and I see people falling into homelessness every day, and it's usually our most vulnerable. And this is not right. It's usually our seniors that have busted their butts all their entire lives to live a retired life and they're the first ones to go homeless. So please divest from CalPERS -- I mean, divest from Blackstone real estate funds that may produce reliable returns, but at what cost, homelessness?

We are asking CalPERS to hold Blackstone accountable for driving up rents. Thank you.

CHAIR MILLER: Thank you.

Next commenter, please.

BARBARA PINTO: My name is Barbara Pinto. I'm a resident of San Diego and a member of ACCE and I am retired from the San Diego Unified School District. I'm 78 years old. I'm aware that my retirement funds, CalPERS, are being invested by you into the Blackstone enterprises. I'm here today in protest against these investments and that I have -- I am a renter and very much in opposition to the monopoly that Blackstone has on real estate both national and internationally. They have used over $14 million in investment capital to lobby against regulations to limit rent increases in California.

Their actions are destroying what are supposed to be the golden years for public employees by making housing unaffordable. The rents are outrageous and continue to rise. And by the way, San Diego is the highest paying city in the United States for rent. The rents are outrageous. They continue to rise regardless of member circumstances. The high rate rents destroy most people's dreams of ever getting out of debt, being able to save or becoming homeowners. This does nothing to uplift the hard working people. Why don't you invest in affordable housing, education, solar products, or products that will better elevate our communities. I ask that before another cent of CalPERS retirement funds are invested by Blackstone, that you ask them why they have used our pension funds to make political contributions to fight tenant protections. This will be much appreciated. Thank you so much for listening.

CHAIR MILLER: Thank you.

Next, commenter, please.

KHRIZIA VELACRUZ: Good morning, Board and members. My name is Khrizia Velacruz. I'm a climate finance organizer with Oil and Gas Action Network. I'm here today to urge CalPERS to take a lead in the growing national movement of divesting from fossil fuels. I'd like to gently remind the room that Exxon knew about climate change in the sixties, and instead of making a better choice about it, they doubled down on creating the concept of the carbon footprint and making a global climate crisis that they caused our individual problem by telling us to recycle and to compost. I'd like to add my voice to this chorus and my colleagues that -- and point out and paint a larger picture that CalPERS is not alone in facing this decision to exit Exxon.

Across the country, other financial institutions, like private equity, insurance, big banks, Wall Street are being held accountable for their complicity in the climate crisis and profiteering from its destabilization. For example, the summer of heat campaign in New York has been targeting Wall Street for its pouring of billions into new fossil fuel projects where our comrades, predominantly Black, Brown, and Indigenous folks breathe poisoned air and drink polluted water.

For months, these leaders from Louisiana and

Texas have tried to schedule a meeting with Citibank executives to discuss the harmful impacts of their financing on communities. And in the last 100 days, the Summer of Heat Campaign has taken 33 direct actions targeting outside of Citibank HQ, mobilizing 5,000 people, and resulting in 700 arrests of civil disobedience. This is just one side of the fossil fuel resistance.

As a climate finance organizer, it's -- two things are clear for me, as long as there are investments in fossil fuels, people will remain relentless in holding financial institutions accountable for their role in the climate crisis. And second, the era of fossil fuels is on its way out. CalPERS is well positioned to make a bold and leader-led choice. Don't double down the way that Exxon did. Divest from Exxon now and stand with us on the right side of history.

Thank you.

CHAIR MILLER: Thank you. The next three commenters will be Xochil Garcia, Enrique de Leon, and Marks Swabey.

XOCHIL GARCIA(through interpreter): Good morning. My name is Xochil Garcia and I work at the Cardenas Market store in Colton, California which is owned by Apollo management. I want to speak to you because you have Labor Principles, including freedom of association, and I think you will want to know how a company you invest in is denying us that right.

On the morning of June 4th of this year, my manager told me that there would be a training. When I asked what that training was for, she said so things can get better. I was rushed to finish cleaning the kitchen before the meeting and my manager said, "Hurry up, blondie. They're waiting for you."

Before the meeting started, we were told to turn off our cell phones. The meeting was run by a woman from HR named Dianna. About an hour and a half into the meeting what I believed to be the true purpose of the meeting was revealed. Dianna said, "I don't know if you guys ever noticed, but the union is here." Then she gave a presentation showing a staircase with the union at the bottom and Cardenas at the top. She said that the union spent a lot of time trying, but they have not been able to unionize Cardenas.

She played a video that only showed people talking negatively about the union. This went on for 45 minutes. The store manager, Manuela, and another manager were in their office with the door open throughout the whole meeting, so they could hear everything. I believe the management wanted to intimidate us at this meeting.

We do not have freedom of association to join a union at Cardenas, so I think that you should make sure that Apollo enforces your Labor Principles. Then we can improve our jobs and your investment.

Thank you.

CHAIR MILLER: Thank you for your comments.

Next commenter, please.

ENRIQUE DE LEON(through interpreter): My name is Enrique de Leon. I work at Cardenas Market in Colton, California, which is owned by Apollo. I have been there for three years in the produce department.

In May, UFCW organizers approached me a the store. They told me a little bit about what my co-workers were doing in other stores to be able to improve our working conditions and eventually have union representation. The Director of the store, Manuela Guzman, witnessed me talking to the union organizers.

After having several conversations with the organizers about unionizing, I concluded that a union would be beneficial for me and my co-workers. So I offered to coordinate a meeting, so that the union organizers could discuss the union process with some of my co-workers. I coordinated the meeting and it had -- and had it WaBa Grill, which is located next to the Cardenas store. About seven or eight colleagues that invited attended.

While we were talking about organizing and having union representation, the director of the store arrived at the meeting. One of the organizers informed her that we were at a meeting where we were talking about the union and asked her to leave. I noticed that she came just to take note of who was attending the meeting. Days later, she began to retaliate against me for having coordinated that meeting.

After the meeting -- after that, the company conducted a meeting where they told workers that having a union had no benefit. And then shortly after the company's anti-union meeting, they called me to the office where they notified me that they were ending my employment. I feel that it was very clear that the decision to terminate me, since I was very interested in having union representation.

Cardenas is not living up to your Labor Principles about freedom of association to form a union. I hope you require that Apollo management to live up to your Labor Principles at Cardenas, so that -- so we can form a union and work at our best for you as investors and ourselves.

Thank you.

CHAIR MILLER: Thank you very much.

Next commenter is Frank Ruiz.

Oh, Mark Swabey. Yeah. Then Mr. Ruiz can come down after Mr. Swabey.

MARK SWABEY: Thank you for allowing me to speak today. I'm speaking on be -- on the -- I'm commenting on the Private Equity Program.

We're looking at a possibility for CalPERS to have over $1 trillion in assets under management very soon. CalPERS can do that by becoming a major shareholder in private equity companies that are listed public exchanges instead of doing public -- general partner-limited partner partnership contracts. They can also influence the Board's of those companies to make the changes that people are asking for, especially in private equity, because as a share -- as a major shareholder, you have influence. So, we want money, but we want it in the right way.

Thank you.

CHAIR MILLER: Thank you.

Next commenter, please.

FRANK RUIZ: Thank you for allowing me, Frank Ruiz, a CalPERS retiree, an opportunity to address the CalPERS Board regarding the presentation today.

In July -- in my July presentation, I spoke about CalPERS chasing the white rabbit from Alice in Wonderland. So as CalPERS enters Wonderland -- enters Wonderland, the banner reads, Welcome Wonderful -- Welcome to the Wonderful Grand World of Wonderland Investing.

The white rabbit leads CalPERS to the giant money tree atop the knoll. The money tree sparkles with bright green notes, money bills of hundred million and billion dollars. With every step CalPERS takes towards the money tree, CalPERS can see more, and more, and more Cheshire cats, sitting on the tree limbs. Finally at the base of the tree, CalPERS can count at least 363 Cheshire cats sitting on the tree limbs looking down at CalPERS. Just as CalPERS stands under the tree and reaches for the inviting bills, the green bills turn dark brown and black. A puff of wind blows the blackened leaves that dislodge from the tree and covers CalPERS.

CalPERS now buried under tons of leaves sees the Cheshires disappearing and only living -- leaving their big grins behind. The grins wistfully suggest a thank you to CalPERS for its donations to their companies. Only then does CalPERS realize that the Private Equity Program promised outsized returns is an illusion, an illusion.

We want money. We want money. We want money. We're not getting it from the Private Equity Program. Wake up, CalPERS Board. Please realize what you're doing. Mark said a trillion dollars. We can become a trillion dollar company. Please look at that and think outside the box. Half a billion dollars, we should be at $750 billion right now. And we can do it by doing what Mark says invest in private equity, but in the stock market, because they are on the stock market. And we don't have to deal with being a limited partner, where we don't know where our money is going, except to pay maybe for the dividends of those companies or the bonuses of those CEOs.

Please consider that and then we can get to divestment -- excuse me, to inclusion, which is what some of the members spoke very, very strongly about in the last July meeting.

CHAIR MILLER: Thank you.

FRANK RUIZ: They could not understand why we couldn't get there. Well, we can.

CHAIR MILLER: Yeah.

FRANK RUIZ: But we have to get on the boards by buying their stock and then we have --

CHAIR MILLER: Thank you for your comments.

FRANK RUIZ: -- some say in it. Thank you.

CHAIR MILLER: Your time has run. Thank you.

Okay. I think that's all the folks who have asked to speak who are in the room, if I'm not mistaken. And so we'll now take our phone callers. And so on to our callers on the phone.

STAFF SERVICES MANAGER I FORRER: Yes, Chairman

Miller. We have Ally Lindstrom from Sierra Club. Go ahead, Ms. Lindstrom

ALLY LINDSTROM: Thank you for your time. My name is Ally Lindstrom and I am senior strategist on Sierra Club's Fossil Free Finance team and I am calling to comment on Item 6D.

And I'm calling today to request greater transparency for the 100 billion invested in climate solutions. CalPERS has presented a compelling and clear case for tackling the threat and opportunities of climate change covered in previous Board meetings and on the website. This alone is critical for developing effective strategies and bringing other investors along. However, the (inaudible) finance market faces significant challenges with greenwashing, backsliding, poor modeling, and a significant ambition gap when it comes to corporate targets.

This, of course, is not news to anyone on the Board or on the staff. But in the spirit of accountability and the high standards that funds aspire to, I believe that the Board, public, and peer institutions require more insight into the methods of the solutions fund and how it will overcome these challenges. Much (inaudible) that the high -- that investments are included in the 47 billion or so already invested, criteria or standards are in place and are those criteria science based?

There are many questions worth grappling with and (inaudible) stands to improve not only CalPERS performance but to break ground for other investors. This fund will succeed in the face of systemic risk posed by climate change when others follow its lead. I applaud CalPERS for being at the forefront of new strategies to serve beneficiaries and to protect the fund from climate risk. And I look forward to hearing more information.

Thank you.

CHAIR MILLER: Thank you.

Next commenter on the phone.

STAFF SERVICES MANAGER I FORRER: Next, we have Jason Disterhoft. Go ahead, Mr. Disterhoft.

JASON OPEÑA DISTERHOFT: Hi. Thanks, everyone, for your time. My name is Jason Opeña Disterhoft with Majority Action, an advocacy group focusing on risks to shareholder value, especially climate change and racial inequity and proxy voting tools to mitigate those risks. We appreciate everyone who raised their voices today on Exxon. I wanted to offer a comment on related issue, that is how the biggest assets managers voted on Exxon last May.

CalPERS trustees and staff showed real leadership this year defending against Exxon's assault on corporate governance institutions that are vital to securing shareholder value. CalPERS's exempt solicitation and strong presence in the media were vital and we also appreciated trustees in an individual capacity joining a letter to the largest asset managers calling on them to hold Exxon's board leadership accountable.

CalPERS's work meant that the biggest asset managers faced a which-side-are-you-on moment on Exxon. This month, we'll see reports and analyses of how the biggest asset managers voted. But we already know from the vote numbers last May that most of the biggest asset managers took Exxon's side and voted for the full Board effectively endorsing Exxon's lawsuit. The Exxon vote was a clear example of how the biggest asset managers are undermining CalPERS beneficiaries' retirement security.

We appreciate that CalPERS Governance and Sustainability Principles, which guide the Fund's proxy voting, recognize that CalPERS quote, "Long term investment horizon is both an advantage and a responsibility and that responsibility requires that CalPERS advocate for policies that support the long term with investment managers," unquote.

As we learn in the coming weeks how particular asset manager voted, we encourage CalPERS to take this opportunity to take a hard look at whether its managers stood on their side or on Exxon's and to strengthen its policies and practices for ensuring that its managers are aligned with CalPERS beneficiaries' interests.

CHAIR MILLER: Thank you.

JASON OPEÑA DISTERHOFT: Thank you again for your leadership this year. And we look forward to CalPERS continuing to lead on this issues going forward.

CHAIR MILLER: Thank you.

Next caller on the phone. We have one or two more.

STAFF SERVICES MANAGER I FORRER: Next, we have Stephen Goldsmith. Go ahead, Mr. Goldsmith.

CHAIR MILLER: Mr. Goldman, are you there?

Go ahead.

STEPHEN GOLDSMITH: Yes. Steve Goldsmith from the Torrance Refinery Action Alliance and a CalPERS member. For more information about TRAA.website.

I'm speaking today as an individual resident that -- at Exxon refinery right in our community. So this is about their behavior up close. I was even on the Exxon Community Advisory Board, so I've seen what they have to say.

After a 1995 consent decree, Exxon continues to use large amounts of exceptionally deadly chemical called hydrofluoric acid, HF, with an ineffectual modifier, deceiving environmental justice burdened communities. In 1999, Exxon had a significant HF near miss. And in 2015, after an Exxon delayed proper maintenance resulted in a massive explosion, another near miss endangered over 800,000 people. This is a very deadly chemical.

U.S. Chemical Safety Board and AQMD agreed and showed how Exxon disregarded community safety. Commercially proven, vastly safer alternatives exist, but Exxon rebuilt the refinery with HF, dumped it off to a relatively small company to deal with the enormous liability risk. Exxon continues to operate two other HF refineries in other states without the modifier.

Is Exxon a good investment for CalPERS members? Their long track record in Southern California says no.

To learn more about this danger of hydrofluoric acid visit a TRAA.website.

CHAIR MILLER: Thank you for your comments. Do we have any other phone callers?

STAFF SERVICES MANAGER I FORRER: No more callers.

CHAIR MILLER: Okay. Thank you. That concludes the public comments and so we'll go into our action consent agenda item 5A. Mr. Moulds. Dr. Moulds.

CHIEF INVESTMENT OFFICER GILMORE: Thank you.

I'll just invite Don, Christine and Fritzie to join.

CHAIR MILLER: Okay. Great.

CHIEF INVESTMENT OFFICER GILMORE: I would say that this has been an impressive collaborative effort between a Health team under Don, the Actuary team under Fritzie, and Christine who leads our Affiliate Program. And I'll just pass through to the team.

CHAIR MILLER: Oh. Hang on one second. I think we have a Board member who wants to speak. Here we go. Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, Mr. Chairman. My comments or questions go back to the speaker that we had on the phone from the Armenian Bar Association, who raised the question as to whether or not our investments in Azerbaijan are violating the Office of Asset Controls. And I believe staff is going to have an answer to that. If we don't have it now, I think we need to research that question and make certain that we are being consistent.

Thank you.

CHIEF EXECUTIVE OFFICER FROST: Thank you, Ms. Middleton. We are fully in compliance with OFAC, the Office of Foreign Asset Control. If they were to make a determination that an exit from Azerbaijan was necessary, then CalPERS would follow accordingly.

COMMITTEE MEMBER MIDDLETON: Thank you.

CHAIR MILLER: Okay. Thank you.

All right. Back to you.

(Thereupon a slide presentation).

INVESTMENT DIRECTOR REESE: Great. Good morning, Mr. Chair and members of the Committee. Christine Reese CalPERS team member. I'm joined today by Don Moulds, Chief Health Director, and Fritzie Archuleta, Deputy Chief Actuary to present the asset liability management mid-cycle review and recommendations for the Long-Term Care Fund.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: Typically, a mid-cycle review would be focused on the asset side of the equation, evaluating updated capital market assumptions and potential changes to the portfolio.

For the Long-Term Care Fund, this review is more comprehensive and was expanded to bring together and evaluate the assets, liabilities, and the proposed rate increases that would be presented tomorrow in the Pension and Health Benefits Committee meeting. In our presentation today, we will cover program background, actuarial considerations, and the strategic asset allocation analysis and recommendation.

I would like to take a moment to acknowledge the many CalPERS team members in the Health Program team, the Actuarial Office, the Financial Office, the Investment Office, as well as the work of our Investment Manager for the collaborative partnership and contributions to this body of work. Now, I'll turn it over to Don Moulds to cover the program information.

CHIEF HEALTH DIRECTOR MOULDS: Thanks, Christine. Don Moulds, Chief Health Director. As Christine mentioned, since this agenda item involves recommendations on the Long-Term Care Fund investment strategy, we thought it would be important to provide updates on the Long-Term Care Program for context, in particular with respect to its funded status and future risk.

Fritzie is going to walk you through those details, but first I'm going to do a little bit of high level framing. After Fritzie and I are done, we'll turn things back over to Christine who will be sharing analysis of the various options with respect to asset allocation.

Just as a reminder, today, this Committee is going to be asked to adopt a recommended asset allocation. Tomorrow, the Pension Benefits and Health Committee will be taking up the question of long-term care rate increases since that falls within their jurisdiction.

Before I dive in, are there any questions about that distinct but related agenda items that the two committees are going to be taking action on?

All right. I'll dive in.

The CalPERS Long-Term Care Program is in its 30th year. It has approximately 80,000 policyholders, and has paid long-term care benefits for about 41,000 policyholders since the Program has been in existence. In 2020, the Board suspended open enrollment in the Program due to plan premium volatility and uncertainty in the long-term care market.

Back in June, I alerted the Pension, Benefits, and Health Committee that we would be returning to them to request approval for two long-term care rate increases, a 10 percent increase in early 2025 and a second 10 percent rate increase in 2026. That recommendation has not changed. I want to assure the Board and those listening that we do not take these recommended rate increases lightly. While they are significant -- they're significantly lower than the last two series of rate increases that we've needed to adopt, we recognize that they will create hardship for some of our Long-Term Care Program enrollees. I want to emphasize that our recommendation is made with one purpose in mind, which is to ensure that there are sufficient funds to meet the needs of all of our policyholders now and into the future.

I should also note that neither the proposed rate increase nor our proposed rates are out of synch with what we are seeing in the rest of the long-term care industry. The entire industry has been facing the same challenges that -- (clears throat) -- excuse me -- that our Program is currently facing. In many cases, it has seen premium increases that are significantly higher than the ones we will be proposing tomorrow.

Go ahead and turn to slide three, if you would.

[SLIDE CHANGE]

CHIEF HEALTH DIRECTOR MOULDS: The recommendation we're talk -- taking to the Pensions and Health Committee is based on extensive work that is done by our actuarial team with input and validation from external actuaries and other long-term care experts. In brief, there are two considerations that are contributing to the need to raise rates.

The first is a material change to our projections -- to the -- our projections of our enrollees' future long-term care needs. Following industry standards, CalPERS annually reviews and makes improvements to the actuarial assumptions that are used to calculate projections about future long-term care obligations. They then apply these new assumptions to what we know about our current program enrollees. Since the last rate increase, both morbidity improvement rates, or how quickly morbidity is improving, and claim termination rates, how long claims will last, required an adjustment. These adjustments add to the proposed cost of the Program and thereby place upward pressure on our rates.

The other factor that is contributing to the need to raise rates is worse than expected investment returns over the period of time between our last rate increases in April -- in the April valuation report. Following a period of historic increases in interest rates, return on our investments of the Long-Term Care Fund, which are heavily exposed to the U.S. bond market significantly underperformed. For the 2021-22 year, investments in the Long-Term Care Fund realized a nearly 10 percent loss and for the 2022-23 year, they realized a loss of six-tenths of one percent. As a reminder, the assumed rate of return on the portfolio is 4.75 percent.

I should note at this point that the investment projections you are going to be talking with -- about with Christine are very encouraging. As she will be discussing, you have the opportunity to significantly derisk the long-term care portfolio with projected returns that will exceed the current discount rate. The challenge is that we are entering a period in the lifecycle of the Long-Term Care Program where a high percentage of our policyholders are starting to transition from premium payors to claimants.

As a reminder, our policyholders stop paying premiums when they become claimants. The average age in the Program now is about 78, so increasingly close to the average age where they start to need long-term care insurance, which is about 84 years of age. This means that the number of policyholders who pay premiums is and will be rapidly shrinking by an estimated about 3,800 policies per year, along with the reserves in the Program that are used to pay for long-term care.

So in the future, if we need to adjust rates to account for changes in actuarial assumptions, or because our investments do not perform as expected, rate increases will need to be much higher to replenish the fund to the same degree as the more modest rate increases we are considering now. Potentially, we could find ourselves in a situation where those rates could be unaffordable for most policyholders.

The parting thought here is that -- before I turn it over to Fritzie, is that we believe there is a need to be conservative here both in the choices you make today about risk and return and in the discussion about rate increases that is facing the Pension and Health Committee tomorrow. You'll get a much clearer picture of that reasoning when you see Fritzie's analysis.

It's imperative that we have the reserves available to meet the long-term care needs of all of our enrollees, but also that we avoid scenarios where we do so -- in order to do so, we need unaffordable rate increases.

So with that, I'll go ahead and turn it over to Fritzie.

DEPUTY CHIEF ACTUARY ARCHULETA: Sorry. Good morning. Fritzie Archuleta, CalPERS Actuarial team.

Okay. So next slide, please.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So before we discuss the investment options before you today, I have some actuarial information for you to consider. I will go over the current state of the Program, the probabilities of the need for future premium increases, the estimated future margins, and other funding considerations.

Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So as of 2020 -- 6-30-2024, the estimated margin is negative 27 percent. Now, as a reminder, the margin is an indicator of where the premiums need to go in order to get the

Program back to a hundred percent funded. And so in the case of a negative 27 percent margin, that would mean that we would need a 27 percent increase to premiums to get us back to a hundred percent funded. The estimated funded ratio is 88 percent and that is simply the assets in the Program divided by the cost of the Program. And this is all based on a 4.75 percent discount rate.

Next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So as part of our analysis, we looked at 5,000 simulations to the current portfolio and we asked ourselves a couple of questions. The first question we asked was what is the Program going to look like with and without the rate increase. So without the two 10 percent rate increases that are being proposed tomorrow, the probability that we will need a rate increase within the next five years is 63 percent. With the two 10 percent rate increases, that probability drops to 44 percent. So not surprisingly, the likelihood of needing a premium increase is bought down roughly by 20 percent due to the 20 percent increases. But perhaps more compelling information is on the next slide.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So we looked -- the second question we asked is what would the level of rate increase need to be at five years with and without that rate increase? So in the first scenario, with -- without the two rate increases, we estimate that a 48 percent premium increase would be needed after five years. And with the two rate increases, it would only be a negative 10 percent increase needed. And at negative 10 percent, we wouldn't even be sure if we needed a premium increase at that point. Usually, what we look at is like a negative 20 for a few years.

Okay. So these two slides together, you know, illustrated the fact that the Program is probably better off acting sooner than later.

Next slide, please.

[SLIDE CHANGE]

DEPUTY CHIEF ACTUARY ARCHULETA: Okay. So I realized that it was just a few years ago that the Program underwent a 52 percent and a 25 percent premium increase. Since that increase, the Program has experienced lower than expected investment income. And new information, such as differences in morbidity improvement and adjustments to claim termination rates suggest that future Program costs will be higher than expected.

As you decide today on a portfolio, I would like to point out a few considerations for the future. Like

Don mentioned, the number of policyholders in the Program is decreasing each year. As the number of policyholders decreases, the ability to address the shortfall in the Program with increased premiums also decreases.

Couple this with the advanced average age of the cohort and the Program can ill afford large volatility in the portfolio. A conservative approach to all future assumptions, especially the investment assumption, is the best way to protect against unmanageable rate increases for the future.

So this concludes the actuarial section of the presentation. I will now hand it over to Christine to discuss the investment options before you today.

CHAIR MILLER: I think I have a question from Director Pacheco before we...

COMMITTEE MEMBER PACHECO: Yes. Thank you. Can hear me with this new -- the new system here.

First of all, thank you. Thank you, Fritzie. Thank you, Don, for your question. So my first question is regarding back to Don, I think, and it's kind of related to both you is how has the makeup the participant pool changed over time and how has that affected the projected liability at this time, if you guys can elaborate a little on that.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. So the pool of policyholders gets older. Every year on average, it -- close to a year older. And as that happens, they get closer. You have more and more people who are going into claim. So the way that long-term care -- our Program works is that you pay premiums until you start needing benefits. When you qualify for claim, you stop paying benefits.

So as I noted, the average age of -- for someone making that transition from being a claimant -- I'm sorry from being a policy -- a premium payer to being a claimant is 84, so six years older than the average age in the Program. So as Fritzie and I noted, there are about 3,800 people who transition to claim every year. That's a little under five percent of the Program, if we have 80,000 policyholders. And that number will increase as we go forward. So that's -- that means that we have fewer dollars going in and we have a higher percentage of the reserve going out.

COMMITTEE MEMBER PACHECO: And just as a follow-up on that question - thank you, Don, for that question -- currently, we are -- our enrollment is closed then. We've -- there are no new people that are coming in.

CHIEF HEALTH DIRECTOR MOULDS: That's correct.

COMMITTEE MEMBER PACHECO: Okay. So and --

CHIEF HEALTH DIRECTOR MOULDS: The Board -- the Board took that action in 2020.

COMMITTEE MEMBER PACHECO: In 2020. Very good then. That's all my questions. Thank you.

CHAIR MILLER: Okay. Next, I have a question from Director -- oh, no, from Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. I have a quick clarification question regarding the actuarial considerations. Are there any risks that updated actuarial assumptions might not fully account for future liabilities or changes in demographic trends?

DEPUTY CHIEF ACTUARY ARCHULETA: Yeah. Thank you. Luckily, we actually do an actuarial study every year to make sure that we incorporate experience as it happens. And so the actuarial assumptions that we have in place now are up to date.

ACTING COMMITTEE MEMBER RUFFINO: Okay. Great. Thank you.

CHAIR MILLER: Okay.

CHIEF HEALTH DIRECTOR MOULDS: The other partial answer to your question, of course, is that actuarial assumptions are always assumptions, so that's always a possibility, but we routinely, as Fritzie noted, monitor those assumptions based on what we know about the population and then comparing it to what we know about our own population. So these are observations in the world compared to the particular demographics of our population. So always a possibility, but we are doing all the things we need to be doing to mitigate any inaccuracies in our assumptions.

CHAIR MILLER: Okay. I see no further questions, so continue on.

INVESTMENT DIRECTOR REESE: Thank you.

If we could move to slide 11, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So turning to the strategic asset allocation with consideration of the Program and actuarial information presented by Don and Fritzie, this analysis does incorporate the proposed rate changes and evaluates both assets and liabilities. So the recommendation that we'll be making for the policy portfolio is to make allocation changes that reduce risk and return from the current portfolio, which is a similar approach to the recommendations presented in June for risk reduction for the Legislators' and the Judges' II funds.

So an important and foundational element of this analysis, which was developed in collaboration with our external manager, they provide both ALM and investment management services, is that the objectives, methodologies, and processes utilized by the manager are similar to what we use internally for the Public Employees' Retirement Fund and the Affiliate Funds.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: So when assessing a strategic asset allocation, it's important to understand the plan attributes and align the investment objective accordingly. Based on the factors that Don and Fritzie presented, such as the discount rate of four and three-quarters, the average age of participants around 78 claims exceeding premiums and the increasing reliance on investment returns over time, the LTC Plan attributes align with a conservative investment strategy. We are looking for an objective that provides a return that supports the discount rate, whiling managing risk to protect against large losses, which can be difficult to recover from.

If we move to the slide 13 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- with those objectives in mind, our portfolio construction and evaluation process, as I mentioned, incorporated both assets and liabilities. And this graphic depicts the primary steps taken to arrive at the policy portfolio recommendation. And I'll walk through these components on the following pages

So if we move to slide 14 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- this is the Capital market projected returns. Capital markets are a primary input to the process and are comprised of the projected returns, projected risks, and correlation. So these are the returns, the risk, and correlation information is in that appendix.

So looking at this graphic, the blue dot is the current projected return for each asset class, the orange dot is the projected return from the prior ALM, and the clear dot is a comparative value from our internal CMA survey, of which our investment manager is a participant. So as we have seen in other mid-cycle reviews, since the prior ALM, the projected returns for fixed income asset classes have risen, equities are in similar ranges, and commodities and REITs have not substantially changed.

This results is consistent with the rise in interest rates during the last few years. And while returns have risen, risk -- projected risk has not. And so this creates an opportunity to reduce risk in the portfolio.

If we move to slide 15 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- another important input into the portfolio optimization is a set of asset class constraints. These assist with diversification and they provide balance to the mathematical optimization models that may allocate large segments of a portfolio to a single asset class. For this review for the long-term care fund, the global equity and fixed income constraints were lifted, as they weren't -- they were not triggered. And the commodities minimum of three percent was replaced with an overall eight percent of combined inflation assets made up of commodities, TIPS and REITs.

If we move into slide 16 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- when we use the CMAs and constraints, we created eight optimized portfolios. And these are portfolios that produce the highest return for a given amount of risk. And these portfolios are shown on the line on the graph on the right. And I'll take a few minutes to through this graphic.

So starting with the current portfolio, this is shown as the triangle in the upper right. It has projected risk of about nine and a half percent and a projected return of six and a quarter, so significantly higher than the discount rate. As a point of reference, in the prior ALM, the current portfolio shown as the triangle in the lower right has the same level of risk, but a projected return of five and a quarter, so a full percentage point lower.

The optimized portfolio is using the updated CMAs, as I mentioned, are shown along the orange line and four, indicated by that boxes around the returns, have been selected as candidate portfolios. So the reason these have been selected, Candidate A has the same return as the prior ALM target of five and a quarter. Candidates B and C were selected as a high -- as slightly higher risk-return options to Candidate A. And then Candidate D was selected as it has the same projected return as the current portfolio. So we wanted to kind of have a wide spectrum of options represented by the candidate portfolios.

So if we move to the next slide --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- I'm going to review the recommendation first and then discuss risk in more detail on the following slides.

So to develop the recommendation, we really focus on balancing risk and return trade-offs to provide a portfolio that aligns with our investment objective. So for the Long-Term Care Fund, our recommendation is

Candidate B, with the following rationale. It is supportive of the discount rate. It provides a slightly higher return compared to Candidate A. The risk is low and the equity allocation is reduced compared to the current portfolio as well as compared to Candidate C and D.

So if we look at the allocations on the right side of the page, it's important to note that prior to the last ALM, the fixed income allocation was 66 percent and the allo -- and the equity allocation was 15 percent. At the time when interest rates were so low for so long, in order to achieve the five and a quarter projected return, it was necessary to decrease the fixed income allocation to 60 percent and double the equity allocation to 30. The risk also increased to nine and a half percent at that point in time. So now, with fixed income in an improved position, we have a good opportunity to reduce risk across the portfolio as well as to reduce the risk -- the equity allocation.

So moving to slide 18 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- and looking more closely at risk, we conducted three stress tests on each of the portfolios. So this is testing how portfolio returns would perform through actual historical periods of stress. In all cases, the current portfolio has the greatest negative return or loss. For the candidate portfolios, the loss increases from the lowest returning portfolio, Candidate A, to the highest returning portfolio, Candidate D, and the loss increases in magnitude.

For example, if we look at the far right set of bars focusing on Candidates A, B, and C, each of these portfolios are separated by 25 basis points in return. For Candidate A, during this period of stress, the loss would be expected to be 20 percent. Moving up to Candidate B, you got another 25 basis points of return. The loss increases by two percent to 22.2.

But for Candidate C, for only another 25 basis points, the increase in loss doubles from two percent to four percent. So you can see this kind of increasing magnitude in risk.

Another element of loss that is important to consider is that to recover, the portfolio must earn a higher return than what it lost. So, for example, using this same stress test, if a portfolio starts off say with $100 million and loses the 20 percent as Candidate A shows, that portfolio is now valued at 80 million. In order to get back to 100 million, it must earn 25 percent. So for Candidate C, if the portfolio loses 26.3 percent, in order to recover, that portfolio must actually earn 36 percent. So that's another important consideration with risk, when the portfolio experiences time of loss.

So this analysis shows that our recommended portfolio Candidate B offers some return upside compared to Candidate A, while not adding the same magnitude of risk as moving up to Portfolio C or D.

On the next slide --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- we also conducted a statistical analysis on the probability of depletion and the present value of remaining liabilities. So this assumes that for each candidate portfolio, the projected return is achieved over a 30-year period of time. Five thousand different portfolio return paths are generated for each candidate and then used to evaluate the portfolio, the assets, and the liabilities over that 30-year period of time. So this analysis does incorporate the proposed rate increases, but it does not contemplate any future changes to Program, actuarial, or investment assumptions.

So the results show that although the higher risk return candidates have a lower probability of depletion, it occurs faster and leaves more liabilities left to pay. So this is a function of those higher risk portfolios earning higher returns, but also suffering larger losses, which we just talked about can be difficult to overcome and take time. And in this particular portfolio, we don't have a lot of time to make up those losses. So we want to protect against those large losses. We have a cash flow negative fund. We have the aging population and then an increasing reliance on investment returns.

So when we look at Candidate B compared to Candidate A, it has a two percent lower chance of depletion and the average present value of remaining liabilities is $25 million dollars. For Candidate C, the probability decreases by only one percent and the liabilities jump up by about 40. And Candidate D, the probability drops by two percent and the lia -- remaining liabilities increase by 90. And so that's a function of it depleting faster. So the faster you deplete, the more liabilities are -- you leave on the table.

So this analysis shows certain risk trade-offs when evaluating portfolios and we believe that Candidate B provides a good balance between these risks.

So moving to slide 20 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- the final assessment of risk is a comparison of the Long-Term Care Fund to other Affiliate Funds to determine if the recommended policy portfolio is positioned where we would expect, which is the case. So we've modeled the LTC Candidate B portfolio in this graphic. And it's situated immediately to the right of the Legislators's Fund, which is a closed cash flow negative fund, also with a conservative investment strategy.

So on slide 21 --

[SLIDE CHANGE]

INVESTMENT DIRECTOR REESE: -- I'll close out Candidate B as the recommended policy portfolio for the Long-Term Care Fund aligns well with our conservative investment strategy and our objective. It balances risk and return, is supportive of the program and actuarial considerations presented by Don and Fritzie.

The recommendation includes the capital market assumptions, the policy targets and ranges, and benchmarks. And if adopted, our next steps will be to present the proposed rate changes tomorrow in Pension and Health Benefit Committee. Don will present that. We will update out investment policies and we will work with our investment manager to effectuate the changes in the portfolio.

So this concludes our prepared remarks and we do have your investment consultant, Wilshire, here. They can make some commentary now or we can move into questions.

CHAIR MILLER: Okay. Why don't we take the questions and -- because I've got quite a few questions here. And then we can hear from Wilshire and they will have the benefit of hearing the questions.

So we'll start with President Taylor.

There we go.

VICE CHAIR TAYLOR: Thank you, Chair Miller.

So, Christine, everything you covered was sort of what I was going to ask. But I think also I -- I'm a little concerned that we're going to end up, you know, in two years, after the second increase, having to increase -- maybe this is for all of you -- because it's a closed system, right? And I forget what slide it is - oh, there we go, slide 19 - where we're talking about the probability of depletion of the fund, right? So at point, then we will be, I would assume, revisiting and looking at whether or not we have the right mix again and how that works. And I feel like our catch-22 is always increasing rates, because that's the only way we can recoup this, but that's been our problem with the long-term fund. So, how -- Don, anybody, how do we address that?

CHIEF HEALTH DIRECTOR MOULDS: Yeah. I can -- I can start. A couple of things. One is that the -- you had alluded to the challenge of not having new entrants, which is a challenge. You're Absolutely right about that.

The other challenge is that -- is that we -- when we had this policy open, so we were taking new members for the years prior to 2020, we saw a dramatic drop in the number of individuals who were buying policies. And that is a reflection of a couple of different things.

One is that we have a lot of policyholders who bought when the prices were low in the late nineties and early 2000s, when the industry just missed. So we were in a similar situation to a lot of funds that don't exist anymore, and that we were underpricing this, because the insurance market didn't fully understand, I think, the implications for long-term care costs going forward and how they would -- how they would increase. So we've seen that. We saw a lot of -- a lot of decrease in the number of people -- or number of insurers who were selling policies and a lot of policies closed.

If we were to open the policy -- the Program again, and that's always a discussion that the Board can take up, we would see new entrants probably along the lines of what we saw before, which was single digit not thousands. That's one.

So the other issue is that we would need to price those policies, so that they were attractive to the people coming in, not to backfill the challenge of meeting the obligations of the people who are in claim. So we could not bring on new individuals to offset the costs of claim. The cost of the policy would be too high. No one would buy it. It would also arguably be an immoral thing to do were somebody to go out and buy it. Don't think they would, but it would be problematic if that were to happen. So, we are somewhat stuck there.

I've shared in the past that we are very excited about the endeavor that we've engaged in, the aging-in-place program with Assured Allies where we are investing in ways of keeping people in their homes longer, which is cutting edge for long-term care. So we now are reaching out to our policyholders through Assured Allies and working with them, so that they can modify their home, make the adjustments, get the little supports that they need to age in their homes longer. The beauty of that is that is what the vast majority of policyholders want. They want to be in their home for as long as possible. And our primary cost is the cost of institutionalization, and long-term care outside of the home. So it is a win-win.

It is new enough, so that we are not scoring that program yet. We are hopeful that at some point in the future, we will be able to score it. So we are continuing to think about ways of serving our members better to reduce costs. But, yes, ultimately, if we don't get the savings in that Program and because we don't have new members coming in, if we miss in terms of investment returns or if the actuarial science changes - and it usually does not change in our favor. That has been the history - then we need to raise rates. And so part of the conversation here about being conservative is exactly that.

You are seeing options here that are higher than our discount rate. That is very good news. You're also seeing options that are lower risk than we have seen in the recent past in our asset allocation. Also, very good news. We think that we've struck the right balance here. The goal is to identify the need for future rate increases, come to you and have that conservation, so in the event that we need to raise them, they are small increases, not large increases, and arguably unaffordable ones

So this is -- the idea here is that this is a more frequent conversation with you rather than waiting and seeing what happens.

VICE CHAIR TAYLOR: Okay. That's what I was getting at. In no way, did I have any intention of reopening this Program. That would be bad. So thank you.

CHAIR MILLER: Okay. Next, we have Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you. So it seems that we've fallen short on the investment side. That's one of the major reasons that we're not where we want to be currently. And if we're concerned about possible additional rate increases and the probability of fund depletion, I'm still not clear on why we're not being more aggressive in our asset allo -- our approach. I'm not suggesting we take a ton more risk, but if you look awe Option C, the additional 25 basis points in return, is met with a better fund depletion profile and the same first-year occurrence of possible depletion, and on a probability-adjusted basis, a better average present value of liabilities depletion.

So given our choices are a little bit more return on the investment side versus another rate increase, why would we not be just a little bit more aggressive on the portfolio?

INVESTMENT DIRECTOR REESE: Yeah. I think it's a few things. So with regard to the investment returns, the investment returns haven't necessarily been out of alignment with what we would expect over 20 years, but we also have a timing component. And so we suffered a few years of losses shortly after we increased rates.

With regard to the -- you know, the amount of risk you take versus return, so the more conservative the portfolio is, the -- there's more certainty of those returns and not the higher return you seek, higher risk, the more uncertain those returns become. And so although, this is -- the probability of depletion is one way to look at risk, you know, looking at the prior page with the potential losses during times of stress, we really want to -- you know, we really want to, you know, kind of highlight that Portfolio C does have -- you know, it creates a higher hurdle to overcome after you experiences -- after you experience those losses.

ACTING COMMITTEE MEMBER GALLEGOS: But it is on the efficient frontier, so you're taking a commensurate amount of risk with the return that you're expecting, correct?

INVESTMENT DIRECTOR REESE: It is an efficient portfolio, but you are taking more risk -- with each step up on portfolios, you're taking on more risk. So it's not a straight line. It's a bit of a curve. And so, with each step up in 25 basis points, you're actually taking on more risk from the prior -- from the prior jump.

ACTING COMMITTEE MEMBER GALLEGOS: But it -- but it's an efficient portfolio?

INVESTMENT DIRECTOR REESE: It is.

ACTING COMMITTEE MEMBER GALLEGOS: Those are all my questions. Thank you.

CHAIR MILLER: Thank you.

Next, we have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you. Very good presentation. And actually my question is similar to Ms. Gallegos, but from a different point of view. I can see we want to be conservative. It is this kind of fund. And yet, we understand some of the basics for the review is there's an increase in projected returns, an ability to decrease the projected risk, but I notice on the trust scenario in front of us now that Candidate A has a lower loss than Candidate B. And I notice in the Wilshire letter that even though the -- Wilshire supports the staff recommendation, because it did similar to what Don said that it's the right -- appropriate -- it's the right balance, I guess, that A and C also offer other options.

And so my question is since there's a lower loss under the scenario test, why -- in A versus B, why would staff recommend B? I'm just trying to understand that recommendation. Thank you.

INVESTMENT DIRECTOR REESE: Thank you. Is your question why would we recommend B over A?

COMMITTEE MEMBER RUBALCAVA: Yes.

INVESTMENT DIRECTOR REESE: Okay. Thank you.

COMMITTEE MEMBER RUBALCAVA: Because of the -- because under the test scenario, Candidate A has a less loss --

INVESTMENT DIRECTOR REESE: Yes --

COMMITTEE MEMBER RUBALCAVA: -- in the scenarios.

INVESTMENT DIRECTOR REESE: Yes. Agreed. And Candidate A is a conservative portfolio. It doesn't -- you know, like I said, it is a balance. It is a judgment call. The -- Candidate A doesn't provide much return upside from the current -- the target we had a few years ago. So, you know, in looking at all of these elements, you know, Candidate B is attractive as a recommendation, because it does offer a little bit of return upside, but it still kind of constrains risk. And then we're also happy to have Wilshire come up and address any questions that you'd like them to answer as well.

COMMITTEE MEMBER RUBALCAVA: Thank you. Thank you.

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

Oh, there you go.

COMMITTEE MEMBER WALKER: Okay. Good. I was going to say I pushed the button. Thank you.

I want to -- it's probably going to display a little of my ignorance, so please excuse me. So one of my questions is we're -- you know, we're looking at like a 30-year investment thing, right? What I'm having a hard time understanding is if the average person is 78, they start accessing it two years later at 84. Thirty years, not to be crass, but they'll probably all be gone. So, why do we do a 30-year horizon? I don't understand that.

DEPUTY CHIEF ACTUARY ARCHULETA: So I'll just start. I think they all -- we all want to answer a little bit of the question. But we do look at the liabilities, just because they go on claim at age 84, they still are expected to live. And we actually -- you know, beyond those years obviously.

COMMITTEE MEMBER WALKER: Thirty years though? That seemed like a lot.

DEPUTY CHIEF ACTUARY ARCHULETA: But the -- that's the average age as well, so we actually have some members -- or policyholders in the system that are in their 40s.

COMMITTEE MEMBER WALKER: Okay. Okay. Okay.

DEPUTY CHIEF ACTUARY ARCHULETA: So it does extend there, yes.

COMMITTEE MEMBER WALKER: That makes sense a little more sense. Okay. I was going to say like, wow. All right. And then -- and I know you talked about it. I didn't really -- I wasn't really tracking when you did, but at what point does it become unsustainable?

CHIEF HEALTH DIRECTOR MOULDS: The Program becomes unsustainable when we don't have the reserves to pay for long-term care claims.

COMMITTEE MEMBER WALKER: So at what -- do we have projections on that? Are we projecting that?

CHIEF HEALTH DIRECTOR MOULDS: Our projection -- our projection is that it will be sustainable. What we continually do is adjust the inputs, so what we're expecting from investment, premium, et cetera, to ensure that we have adequate funds to pay through the life of every claimant. And that is always our objective.

COMMITTEE MEMBER WALKER: No, I get that, but maybe let me ask it in a different way. It's -- a certain point, right, you're going to -- we're going to have to keep raising rates, right? And so as we -- probably, most likely. So as we do, at what point do we feel like -- you know, the rates get so high -- even though we're maintaining the fund, it really isn't sustainable for the people that are in there.

CHIEF HEALTH DIRECTOR MOULDS: So that is one of the things that we're trying to protect against by doing rate increases right now. So that, one, decreases the likelihood that that will happen significantly, but it also, as Fritzie's second big actuarial slide noted, it decreases the size. If we do need to raise rates, it decreases the size of the rate increase to 10 percent rather than I think it was 48 percent. So one of the things that we're trying to do here is protect against these big large -- these large rate increases that we've seen in the past, that if we aren't making these adjustments now, potentially we could need to be doing in the future or potentially have to do rate increase that are even higher.

So that is a -- that is a distinct vulnerability that we are aware of and one of the reasons why we're coming to you now. And we intend to come to you more frequently to make sure that as we start to see the possibility of these needs for higher rate increases, we make the smaller adjustments now when we still have a large base of policyholders who are paying premiums, so that we can keep those rate increases as low as possible.

COMMITTEE MEMBER WALKER: And I do get that and I do appreciate that. It kind of seems like to me like death by a thousand cuts, like they're going to go up, but like -- so we don't do one big gash, but we're going to do 50 million of them and you're still leaking out.

CHIEF HEALTH DIRECTOR MOULDS: So a couple of things. One is, you know, as we have -- as we have more policyholders going into claim, they stop paying those rate increases.

COMMITTEE MEMBER WALKER: Right.

CHIEF HEALTH DIRECTOR MOULDS: And so potentially does this affect the smaller number? Yes. And getting to the point when we have very small numbers in the Program and making those adjustments at that point gets very tricky. That's not a conversation for today, but it's an important conversation --

COMMITTEE MEMBER WALKER: No, I get that. I'm just --

CHIEF HEALTH DIRECTOR MOULDS: -- for the future. But we are -- the projections that we're making at the moment are to be close to fully funded based on the current discount rate and more than fully funded based on the projected -- on the changes in the asset allocation. So by the best information that we have available on our liabilities on how long people live, how long they live with disability, how long they hold on to their policy and so forth, right now, we are not projecting for those kinds of rate increases.

It's -- I absolutely appreciate the concern, because it is a concern that we have as well, but we don't want to over-project and raise rates more than we need to.

COMMITTEE MEMBER WALKER: Right.

CHIEF HEALTH DIRECTOR MOULDS: And if we under-project, we've talked extensively about the challenges there.

COMMITTEE MEMBER WALKER: Right.

CHIEF HEALTH DIRECTOR MOULDS: Can I -- can I add just one other thing, which is that --

COMMITTEE MEMBER WALKER: You can do two, Don.

(Laughter).

CHIEF HEALTH DIRECTOR MOULDS: -- I just -- I really only need one.

COMMITTEE MEMBER WALKER: Okay.

CHIEF HEALTH DIRECTOR MOULDS: The other thing that's important is that when these letters go out, and I'll be talking a little bit about this tomorrow, they go out with options for folks to make adjustments to their -- to the benefit, so they can actually decrease their benefits and avoid paying the rate increase. And so that is another option. So folks who truly can't afford a rate increase can do that. They're also able to call in to illumifin and do any version of that. So they could -- they could decide they want a five percent rate increase, because that's what they afford and make the adjustments to their policies that way also.

COMMITTEE MEMBER WALKER: I appreciate that. I also wanted to say, not a question, but just a comment, that I was really encouraged. You talked about Assured something, so that they can stay --

CHIEF HEALTH DIRECTOR MOULDS: Assured Allies.

Yes.

COMMITTEE MEMBER WALKER: Assured Allies. I really appreciate that that is a direction that we're looking at in going. You know, speaking from personal experience of going through it with my parents now, that it is much better to have them in their home than it is to have them be someplace elsewhere, you know, we can't visit as much, and, you know, folks don't care about. Even though they're all, I'm sure, good workers, but they don't care about them in the same kind of way.

CHIEF HEALTH DIRECTOR MOULDS: Absolutely, it is -- it's a win-win. And we have had the kind of engagement. So Assured Allies has never seen engagement like they're getting from CalPERS. They were -- they were -- they've been doing -- they're the -- they're the only ones who are really out there doing a Cracker Jack job in this space and have the experience and they've never seen engagement like they've seen from CalPERS. They're very excited about it. We're very excited about it. And you're exactly right, the last thing somebody wants to do is to have to leave their home.

COMMITTEE MEMBER WALKER: Absolutely. Thank you.

CHAIR MILLER: Okay. Next, Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you. Thank you, everyone, for your presentation. So I want to go back to the -- actually back to Wilshire's letter, which explain -- I want to just get some clarification on the depreciation rate. It says there that we -- that the recommended portfolio is slightly lower. The probability of the Fund's depletion will go from 31 percent to 29 percent. But moreover, there -- it will also reduce the present value of the liability at the -- the current liability of -- at 1.1. I think it's 1,150 -- 1,000 -- one thousand, one hundred and seventy million to 925 million. And I just want to understand that present value of the liability and how that relates to the -- why we want to choose -- you're recommending Candidate B.?

INVESTMENT DIRECTOR REESE: For this question, can we put up slide 19.

Thank you.

STEVE FORESTI: All right. I got it. New buttons. A whole new set of challenges for the legally blind, but I think these are bigger, so hopefully going forward, I'll be able to find it quicker.

We were just -- we were just calling out the numbers that you see here on this slide, which is, you know, should depletion be hit with these portfolios, you see the stats on versus the current number of years, the probability. Current portfolio at 31 going down to 29. And so those dollar amounts, that present value dollar amounts would be the third column here. So if you -- if you stayed with the current portfolio, that's 1.17 billion, the Candidate Portfolio B that staff has recommended brings that number down to 925 million.

And you can see -- you can see those trade-offs. So the point we were making in our letter was that we -- you know, we support Candidate B. We encourage and are please to see that staff put, you know, several candidates in front of you. And I realize that makes the deliberation a little -- a little more challenging, because you have some options that are not too dissimilar. But I think it's important that it gives you the choice, if you had a slight disagreement on risk profile risk or risk tolerance, then staff, you have some options there.

But to us, this strikes the right balance. Candidate B, you know, in addition to having the expectation to out earn the 4.75 discount rate by 75 basis point, three-quarter's of a percent, it does that by bringing drawdown risk down by 40 percent and bringing volatility down by a third. So it has a lot of nice characteristics in terms of balancing that pursuit of return against risk.

The other point I'm making that was, I think, related to some questions that came up earlier on, could we take a little bit more risk? Should we not -- you know, I'd point back to one of CalPERS Investment Principles about time, or long-term horizon, being a benefit. Different than the PERF, the horizon here is, as was discussed, is a bit shorter, just because of the nature of the -- of the beneficiaries in this health care pool. So you don't have as long a time horizon. So as enticing as some of the expected returns are at the median, if you widen the distribution of outcomes, which is what risk is, you risk kind of running into problems a little bit sooner. And in this case, time isn't as much your friend as it is, let's say, for the PERF, so you can't kind of earn your way back. And your ability to capture that expected return is a little bit challenged, because of the time horizon.

So I think that that -- hopefully that's a helpful point in trying to, you know, understand these recommendations and where our support for Candidate B comes from.

COMMITTEE MEMBER PACHECO: Thank you very much for that -- for that comment. I just -- it is -- it is clarifying for me, because I was trying to understand the difference between the Candidate A and Candidate B relative to the average present value, which in this particular case it would be 900 million versus the 925 million. But now that I understand that, I think it's --

it makes sense of where -- why we landed on Candidate B. Thank you very much.

CHAIR MILLER: Yeah. Thank you. I thought that really helped to clarify a little more for me as well.

Next, we have Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Chairman Miller. And I want to echo the same, first of all, the same sentiment to thank the staff for this very thoughtful and detailed presentation. It really has been helpful to follow.

I have a quick question regarding the long-term implications. So I get the potential, you know, long-term implications if the recommended policy portfolio is adopted. But the question is, are there any trade-offs that the Board should be aware of in terms of long-term risks versus short-term gains?

DEPUTY CHIEF ACTUARY ARCHULETA: So I'm glad we had this slide up. I was actually -- I wanted to point out that, you know, there's a 31 percent chance or -- that column there, that's the probability depletion without future course correction. Now, of course, we're going to be scrutinizing this fund from now until, you know, the fund is over. So, you know, I kind of liken this to, you know, the terminated agency pool, right? It's a closed group. It's dwindling. And as we go on as far as the actuarial assumptions go, we are going to add in more levels of conservatism in there and why it's -- so that we can ensure that we will hit our expectations or costs come below our expectations.

And so for the future, to me, that's the biggest, you know, thing that I see on the horizon. You know, we're going to be looking at that. We're going to be, you know, shoring our assumptions, making sure that they're a little bit more conservative, so that our probability of hitting our marks is going to be higher.

INVESTMENT DIRECTOR REESE: And then from an investment perspective, we would be looking to do the same thing over time, and that is to continually look at opportunities to further reduce risk and, you know, make the investment returns that we're projecting into the Program a little bit more certain. So take more uncertainty out of -- out of the Program over time, similar to, you know, how the TAP, the Terminated Agency Pool, right now is fully cash flow matched. We cannot do that at this time, but that would be a wonderful goal to have to where every liability is cash flow matched and we will strive to, as we can, you know, keep reducing risk and heading in that direction.

And as Fritzie mentioned, we will -- you know, we do have the ability to look at this fund quite a bit more frequently. I mean, the full ALM cycle for the other funds is four years. We're -- we've kind of shortened that to two and then the actuarial experience study is annual. So we're going to be kind of monitoring this Fund on a much more close basis going forward.

ACTING COMMITTEE MEMBER RUFFINO: And I just have another quick follow-up with respect to stakeholders' risks. So how do the proposed changes impact various stakeholders, particularly those relying on long-term care benefits? Are there any specific risks for beneficiary, if the portfolio is adjusted?

CHIEF HEALTH DIRECTOR MOULDS: Yeah. The -- so the rate increases affect them obviously, because they come out of their pocketbooks or they need to make an adjustment to their policy. And any risk that we would assume potentially also implicates the -- has consequences for them. Because if we were to take and overly risky approach and not hit our targets, we run the risk of having to have either higher rate increases in the future, as we talked about, or potentially depletion of the Fund, which is why we're making the recommendations that we're making.

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

CHAIR MILLER: Okay. I'm not seeing any more questions or requests to speak. And I just want to say thank you to the whole team, Wilshire, everyone. It has been very comprehensive, quite clear, and I think we're well prepared to make a decision.

So at this point, I will call on Mr. Palkki.

COMMITTEE MEMBER PALKKI: Yeah. I just want to thank everybody for their hard work on this and I hope that we can be part of the conversation on long-term care as a nation, because I really see that it's a much bigger issue than just CalPERS.

And with that, I'd like to move to approve the Candidate B portfolio for the Long-Term Care Fund as the port -- policy portfolio, which includes the following elements, capital market assumptions, policy targets and ranges, and benchmarks.

CHAIR MILLER: Okay. We have a motion from Director Palkki.

COMMITTEE MEMBER RUBALCAVA: I'll second.

CHAIR MILLER: And Ramon -- Director Rubalcava has seconded it. So any further discussion on this?

Okay. And we'll have a roll call for the question then.

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: 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?
COMMITTEE MEMBER WILLIS: Aye.
CHAIR MILLER: Okay. The ayes have it. The motion passes.
And again, thanks to staff, and our consultants, and everybody else who had input. And this is -- you know, I think this is the right thing -- the right direction. And I think we can feel pretty confident in

this decision going forward.

And we'll now take a break and we'll come back -- let's come back at 11:30 and we'll reconvene.

(Off record: 11:16 a.m.)

(Thereupon a recess was taken.)

(On record: 11:29 a.m.)

CHAIR MILLER: Okay. It is 11:30, so let's start gravitating back to our seats, please.

Okay. Thanks, everybody for coming back, we're -- I'm going to -- okay. We're good to go. We're back in session. And so -- okay. Just making sure everybody -- we're good. Okay. So we'll jump back in now for -- okay.

VICE CHAIR TAYLOR: They can't hear you.

CHAIR MILLER: Oh, you can't hear me.

VICE CHAIR TAYLOR: You're on. You need to get closer.

CHAIR MILLER: Okay. Yeah, I'm still getting used to this new system.

Okay. So we're back for our information agenda items and we're now on 6B, the CalPERS --

VICE CHAIR TAYLOR: 6a.

CHAIR MILLER: Oh, 6a. When you're glasses don't help you anymore, it's time to go get a checkup.

Okay 6a, CalPERS Trust Level Review.

(Thereupon a slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair.

CHAIR MILLER: Mr. Gilmore.

CHIEF INVESTMENT OFFICER GILMORE: I'd like to invite Lauren Rosborough Watt to join us.

And if you'd go to the next slide, please.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: What we've put up here is a summary of some of the key highlights or main point from the report that has been tabled. I'll focus on a few of the points, not all of them, so you'll be relieved probably to hear that. I think the first thing to highlight is the return for the financial year to the end of June. Now, that's a preliminary return of 9.3 percent. And I say preliminary, because we still don't have private equity returns for June. We have those through until March.

So that 9.3 percent return, of course, is higher than our discount rate of 6.8. The good thing about that is that it leads to a higher funded ratio for the Fund. So it goes up from around 72 to around 75 percent. But of course, it's a one-year return. And we're a long-horizon investor, so we really need to focus on that longer term return.

So 9.3, good outcome. You can also see that over a five-year period, we've added some value over and above our benchmark, and that's 0.4 billion. This year, however, there's been an underperformance relative to the benchmark. And that's just under five billion. That comes about really for one reason, and that is the very strong performance of the equity market -- the listed equity market where you've seen the large cap tech stocks do phenomenally well. And you'll find that a lot of our peers and others have also lagged their benchmarks, because of that.

The main contributor there is private equity. Private equity returned a fairly Decent 10.9 percent over the period, but it lagged the public equity market. That is a very short time frame, just the one-year period. And I expect that that will recover somewhat through time. And you can already see that with the large cap tech stocks giving up some ground.

I would also talk a little bit about the allocation to private assets. With the SAA, the path is to gradually increase our exposure to the private markets. We currently at around 30 percent. Then we're on course to get up to 40 percent according to the SAA. Now, when you do that, of course, you have access to a wider range of investable markets, but also it does mean that you have somewhat less liquidity. So we're always focusing on that 30-day tier 1 stress liquidity. I would say that we are probably ina relatively stronger position liquidity-wise than quite a few of our peers. So there's actually a reasonable opportunity for us to be allocating to those markets.

The final thing I want to comment on here on this page is the strategic initiatives. I'm not going to go into any detail on that because Michael and I are going to be talking about that at the end of the day. But I would say that the team has been exceptionally busy, implementing these initiatives and we'll focus on that more later.

If you'd go to the next slide.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: This here is probably also relevant to the discussion we were having on long-term care. The point to be made is that over any one year period, we can expect these returns to be quite volatile. Over a longer period, in this case we're looking at rolling 10-year annualized returns, that return is less volatile. So we can be more confident in our return estimates or forecasts over longer periods. So if we looked at 20 years or 30 years, that would be an even sort of smoother path. And that goes back to one of the comments that Steve from Wilshire was making when talking about long-term care and how confident we were about the particular returns in any one particular year.

With that, I'll pass over to Lauren.

INVESTMENT MANAGER ROSBOROUGH WATT: Thank you, Steven. Thank you for having me here again today Chair Miller, Board Directors. I'm Lauren Rosborough Watt, Investment Officer with CalPERS.

I'm here to talk to you around the macroeconomic drivers of asset returns over the fiscal year 2023-24. And I'll also provide a brief update on current U.S. conditions, as well as some longer run thoughts.

So if we take a step back in 2022, Fed Chair Powell warned that higher interest rates would bring some pain for households and businesses, but that it was the unfortunate cost to get inflation back to target. At the end of the fiscal year to June, the open -- Federal Open Market Committee, or FOMC, was about to embark -- or is about to embark on a rate-cutting cycle with relatively robust economic growth, easy -- broadly speaking easy financial market conditions. And inflation above target at three percent.

Now, not many commentators -- external commentators had anticipated this particular outcome. In turn, the impact of robust real activity throughout the fiscal year has boosted high beta asset returns.

Now, not all the appreciation in assets, as Stephen mentioned, over the past year has been due to the starts of monetary policy. Sector-specific reasons drove the U.S. equity markets, in this case I'm referring to the S&P 500, over 22 percent in price terms and 26 percent in total return terms over the fiscal year. A lack for of corporate bond issuance and the attractive high level of yields resulted in corporate bonds tightening around 30 basis points for investment grade on an option adjusted spread basis.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: And the macroeconomic environment, so the resilient real economy, high employment, and positive real wage gains supported private -- excuse me -- private credit and private equity returns as well.

So in contrast to the U.S. -- thank you for the slide -- the global economy has exhibited mixed reviews. So some countries, such as the UK and Europe, were emerging from a weak 2022-23 period. And China's real estate sector and relatedly it's real household consumption continues to weaken.

Emerging market economies X-China. Now, these are countries where predominantly they had been easing interest rates before developed markets were more resilient over the fiscal year growth, improving throughout the year. And expectations by the IMF is for growth and emerging markets to print 4.2 percent in December.

Since the end of the fiscal year, macro data and indeed asset returns have continued in a positive manner, but somewhat with slower momentum and a little bit more volatility. The lack of synchronicity in economic growth, in large economies, has created what I call an uneasy equilibrium. So the rapid retrenchment that we saw in early October and then a partial rebound, also some retrenchment in early September, point to some crowd positioning, but it also highlights the vulnerability of returns to sudden sentiment shifts. Expectations are now swiveling from expecting the global and U.S. economies to sail through the slow down to heightened concerns now of a potential ratchet lower.

The IMF projects world growth to print 3.2 percent in December on an annual basis. And while that's good, it is somewhat below historical averages.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: Global disinflation has progressed throughout 2023-24. And this is despite the wide range of GDP growth outlooks -- growth outcomes. There are certainly cross-country divergence in the inflation outlook and you can see that in the cart here.

In particular, services disinflation is gaining momentum. And there's an expectation of continued disinflation, which is allowed over a third of developed market economies to start their rate-cutting cycles this year.

Rate normalization, absent a rapid deterioration of activity indicators, is expected to be gradual.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT MANAGER ROSBOROUGH WATT: In the case of the U.S., the resiliency of U.S. households is somewhat variable. So households in aggregate have depleted their excess savings. Some customers -- consumers are financially stressed and that's evidenced by rising delinquency rates of consumer loans and credit card debt. Wage growth is easing back towards its historic pace. The most recent labor market report shows the market has cooled substantially since 2021. And the pace of job growth has been revised down now to 116,000 on average over the past three months.

Now, while this is lower than the start of the year, it's still markedly above historical averages. A growing labor force in part due to rising immigration has helped to balance demand and supply, and supported that inflation or disinflation narrative. But it has the unintended consequence of raising the unemployment rate, because the hiring rate remains quite weak. Hence, the terminology an uneasy equilibrium.

The soft landing -- or soft landing expectation for the U.S. economy is predominantly priced in. And current financial market pricing is predicated on lower interest rates in order to sustain the business cycle into 2025. Corporate profitability remains high, which is good, although easing back and employment remains critical for U.S. consumer spending going forward.

So what of -- much of what I've discussed here so far are talking about cyclical business cycle factors. So underlying the business cycle are secular, or longer run, drivers. And as growth slows, the cyclical element slows. These secular factors will come more into play. Let me give you a couple of examples. The boost that we've seen in the Magnificent 7 in the S&P 500 is effectively markets pricing in today technology, in particular AI, improvements in the future.

So while the cyclical impact suggests economic activities may slow. If these technological improvements, or AI are realized in the future, then real economic activity has the capacity to grow at a faster pace. Similarly, the FOMC is expected to reduce short-term interest rates from as early as this week and also into 2025.

Absent a recession, the majority of analysts and strategists expect the neutral Fed Fund's rate to be around three percent. Now, a neutral rate is the rate at which interest rates can remain neither a drag on the economy nor boost the economy. At three percent, this level is markedly higher than what was assumed by strategists and economists in the post-2009 or Global Financial Crisis period. So you can see some of these long-run drivers are quite different to what we had assumed post-2008, 2009.

Finally, in terms of inflation, disinflation continues. And it's expected to slowly ease back towards target. And if you'll allow me to repeat comments that I've made in the past, there are a number of potential risks that suggest that the variability of inflation may well be higher in the future than what it has been in the recent past, the last 15 to 20 years.

Two examples that I've given before, geopolitical tensions. This changes relative supply and demand and therefore can produce inflation or inflation surprises, the variability of inflation, and also the climate transition. And indeed, the impact of climate events themselves also change relative prices and tend to be a surprise, and therefore generate inflation and inflation variability. So while central bank targets remain at two percent, the inflation pathway may well be more rocky going forward.

So here's a discussion of some of the cyclical factors and some of the underlying long-run secular factors -- structural factors in the economy. So what does this mean for asset returns? What does this mean for our capital market assumptions. I think what we can say is that there's greater uncertainty going forward. Potentially higher growth, but also it depends on what the source of those shocks are for growth and inflation.

From a capital market assumption perspective, the impact is probably mixed in terms of global public equities, real assets, growth and inflation again can offset depending on the source of those drivers, whereas higher interest rates on average would typically be associated with improved returns on fixed income products.

Recall, of course, capital market assumptions are 20 years -- looking 20 years forward. And as we look between now and 20 years forward, there are no -- of course, there's going to be cyclical impacts. Some of these sectoral factors may well change, which we have seen in the post-GFC to the post-COVID period. And of, course, unexpected events have the potential to impact on returns and out portfolio as well.

So for my team's part, we remain vigilant to these signposts in order to help the Fund prepare for both the risks and potential opportunities that may arise.

Thank you for time and I'll turn back to Stephen.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much Lauren. You were mentioning returns. I'll put up a slide just showing the portfolio.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And this also shows the returns by segment. You can see that over the last year, strongest returns have actually come in equities. No surprise, I mentioned the performance of the S&P. We've also had very strong return, 17 percent, in private debt. Sadly, we only have a recently small amount invested in private debt at the moment, but of course, the team is working hard to increase that investment.

I would also highlight that private equity return that I mentioned, 10.9 percent, that's reasonably good. It just has lagged the public markets. I would say though that if you look at private equity versus other private equity indices, like the Cambridge or State Street, that index will outperform -- this has actually been better. Partly, that has been helped by more co-investment, so somewhat lower fees than would be the case on average.

You can see there's also been a drag from real assets. This is a case of real estate continuing to detract from performance. Again, I would note that our particular portfolio is a bit more conservative than the market. So there's actually been an outperformance relative to comparator indices for that particular segment.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Now, Lauren also talked about higher rates going forward. That's very relevant to how we think about investment and the, I guess, composition returns going forward. Now, given that we have a reasonable exposure to equities in the portfolio, equities are going to dominate the return profile, not just through, you know, listed equities, but also through other asset classes that have an equity component, whether that be private equity or some of the higher risk forms of debt, real assets and so on.

But you can see historically over the last 10 years, public equity has been by far the biggest driver of the total returns of the fund. You can see that income section, which is a segment which is -- you know, fixed income is quite small. But with higher rates going forward, we would expect to be a bigger contributor to aggregate returns going forward.

Private equity, again I would expect that to be somewhat larger going forward as well, because we're actually allocating more than we have in the past. And the same goes for private debt. So I would like to think that when we look at this, you know, in 10 years' time, that contribution to total return has become a bit more. Although, as I say, I would expect the equity portion to be the biggest contributor directly and also indirectly.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And just a couple of -- or a few more of those lights. I mentioned earlier that the intention is to get up to 40 percent private assets. And as I said before, I think we have a relative advantage in that space, because we had some lower commitments in the space than some other entities, our peers.

And that actually gives us an opportunity to get access to, you know, high quality funds and maybe to negotiate better terms and conditions. One of the things we have been focusing on a lot is the fee saving co-investment strategies. Now, the key here is to make sure that we have the right alignment. What often happens is people focus on, you know, let's say zero fee, zero carry, and they end up getting worse investments, because there is a lack of alignment. So we don't really want to suffer from that, of curse, so we're focusing very much on making sure we're aligned with our managers.

I would also highlight the commitment to the public equity climate transition index, five billion. And this is not just about reducing or eliminating exposure, it's about investing in those solutions that are part of, you know, the effort to get us to a more environmentally friendly outcome. And it's also part of the SI 2030 100 billion objective.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Of course, you're always wanting to know how we're tracking relative to our strategic asset allocation. I think the point to highlight here is we're pretty close in most areas. Private equity, we've got a little bit to go. Current allocation is around 15 and a half percent going up to 17. Bigger ask in private debt, where we're aiming to get to eight percent by 2028 and we have close to three percent now. And we're slightly over in listed equities.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: In one of the early discussions on long-term care, we were talking about stress scenarios. This here shows a couple of things. It obviously shows through time there are lots of shocks, macro events which cause markets to decline. What I would highlight also is that even though we have a somewhat more diversified portfolio than the pure equity market, our portfolio does track it quite closely. So when you see a shock like the Fed tightening or, you know, let's say, you know, downturns, whether it be tech or others, our portfolio will also suffer. And as a long-term investor, we need to try and look through these things and not be too reactive.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Whoops.

What's happening there?

Technology challenged.

This here is a current chart. What this is showing is our projected return or forecast return as of 2021. That line in the middle tracks that 6.8 percent annual return. And you can see that the cumulative PERF performance has actually been pretty much in line with that. That is just coincidental over the that short time period. Obviously, over a longer time period we'd expect it to be quite close and those other lines around it are really just confidence intervals.

And with that, we can either, you know, take some questions or you might want to call on Wilshire to make a few comments. Up to you, Chair.

CHAIR MILLER: Yeah. Why don't we take questions, but have Wilshire come up and then they can also chime in and we'll have the Benefit of the questions when we do.

CHIEF INVESTMENT OFFICER GILMORE: We have Steve and Ali.

CHAIR MILLER: So first question I have up is from Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. First of all, thank you, Mr. Gilmore, and thank you, Ms. Watt, for your presentation. I always find these information very useful and so forth.

So my first question is regarding the performance of the 9.3 percent return exceeding the target rate of return of 6.8 percent. And -- but I also noticed that it was -- that it didn't -- that the benchmark, we didn't -- was under the performance of that. If you can explain that to me of what happened there and how that's related to the overall performance, that would be get. That's my first question.

CHIEF INVESTMENT OFFICER GILMORE: Sorry. By far, the biggest contributor to that underperformance, as I mentioned was the private equity exposure that we have.

That private equity exposure generated a preliminary return of 10.9 percent, which on the surface looks quite good. It's better than our discount rate, but we're actually comparing it against the listed equity market. So we're comparing it against, you know, the public equity benchmark, and that performed even better. And the primary driver for that was the performance of the Magnificent Seven, you know, the tech stocks. And you will find that a lot of funds appears included will have had their private market assets lag that public market asset.

So really this is a short-term -- likely a short term phenomena. You get concentration in the public markets, strong performance. I would expect through time that you will see the private equity performance, you know, catch up or -- and hopefully pass that performance in the public markets. So it's really a short time window.

And in this particular case, you know, the private equity performance of 10.9 well below public markets. That's the main contributor. You will see that in some of the other asset classes, let's say the real assets, even though there's a decline of just over seven percent in terms of absolute terms, it is less than the index that we're comparing it with. So it's actually contributed positively to that value-add, but the big -- the big thing, is as I said, is the private equity.

COMMITTEE MEMBER PACHECO: Private equity. Thank you very much for that clarification.

The second question I have is actually goes to Ms. Watt regarding the macroeconomics. First of all, thank you for your presentation. I find it very useful and insightful, but I'd like -- I'd like to also consider your ratificate -- your -- any issues around geopolitical concerns that may -- that may affect the volatility of the performance in this -- in our portfolio, if you can elaborate on that.

INVESTMENT MANAGER ROSBOROUGH WATT: Yes, of course. Thank you for your question. I think what's surprising is some of the geopolitical tensions that have been inherent in the media for the last two to three years has not shown as much as what we might have seen maybe 30 years ago, in terms of asset returns and sentiment shifts. The shock that occurred, the rapid drawdown and rebalancing of a partial rebound, in August was not geopolitical -- geopolitically related. It was mainly crowded positioning. So to the extent that geopolitical effects impact depends on how the shocks occur. And what we can say for sure is that geopolitical events impact on countries specifically, but not always do they impact on the global economy.

If we look over history thinking about events such as Iraq war, for example, and other examples over the last 40 or 50 years, what we do tend to see in terms of asset returns is a -- because it tends to be a surprise or a shock, tend to see a rapid adjustment as that new information is calibrated into expected returns and therefore into the price today, but they tend to be relatively short lived.

So again, my answer would be it depends on the source, definitely country specific. Whether it's global or not, what we have seen typically is a very short run or short-lived response.

CHIEF INVESTMENT OFFICER GILMORE: I would just add -- sorry. For a second, I'd just add that typically geopolitical events don't have much impact on the market. You know, Lauren is talking about a short-term effect. Probably the one exception is when there are supply shocks, supply considerations. So when people talk about geopolitical risks, one thing they often point to is what happened in the 1970s, with the oil shock. That did have a big impact. Now, it's possible that going forward there are more supply considerations, particularly if there are, let's say, restraint in terms of, you know, the free flow of goods and so on, or if you get alternative supply chains, or you get bifurcation of markets. But I would look for those situations where there are supply implications related to those geopolitical shocks.

COMMITTEE MEMBER PACHECO: Very good then. And my last question is regarding the report that was -- it's in our package from the TSG, the GIPS standard, in terms of figuring out our -- evaluating the compliance of our performance calculations and our presentation. If you guys could elaborate on that, that would be wonderful.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Sure. Michael with the Investment team. Just briefly, GIPS is basically a standardized methodology of making sure that all of the performance numbers meet certain standards. So it's basically just a standard accounting for investment returns. You know, do you have more?

COMMITTEE MEMBER PACHECO: Well I just -- I just -- my just question is in terms -- it had a very large time horizon. I believer it was from 2016 to 2022, about eight years, and I just wanted to know in that period of time, it evaluated all the numbers making sure they were all accurate, telling us that they are accurate numbers, that the performance numbers that we have are what we say they are.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Yes, they absolutely are. And GIPS is sort of the gold standard of investment returns. And we make a lot of effort to make sure they're accurate. And that's kind of the standard that -- the standard that we use to judge whether or not our numbers are accurate.

COMMITTEE MEMBER PACHECO: Okay. That's it. Thank you very much.

CHAIR MILLER: Okay. Thank you.

Next, I have Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you. Just a few questions. First, for Ms. Watt, do you believe our current capital market assumptions fully integrate the materiality of the systemic changes that you've mentioned, like AI, the cost of the climate transition, et cetera? Can you talk a little bit about how that is being reflected in our capital market assumptions?

INVESTMENT MANAGER ROSBOROUGH WATT: More generally, we have a survey of respondents for our capital market assumptions. Now, that forms how we integrate the capital market assumptions into our strategic asset allocation, but we also run that survey every quarter. And what the survey shows to the extent that valuation -- current valuation, for example, of global equities is pricing in the future. And to the extent that that future is realized, of course, that's, as of yet, unknown, the change in the global public equity capital market assumptions or expected returns broadly -- were very similar to what they were back in the 2021 asset ALM process.

My points early are what has markedly changed is the fixed income response. The expected returns for fixed income more broadly are higher across familial -- in fact, all Fixed income products, including private credit or private debt as a result of that higher interest rate component. To the extent that, for example, technology or AI is feeding into higher run rate for the economy, that would be consistent with higher interest rates in general. Although, I would say, in part, I think the higher what I call neutral Fed Fund's rate is because the U.S. economy went through a period of paying down its debt, households, and mortgages in particular in the post-2009 period. And household balance sheets now are relatively robust.

Their debt to income is low compared to a lot of over developed market economy. And as a result, the economy can withstand higher interest rates more general. So I think it's a balancing of those two factors.

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

And then a question for Mr. Gilmore. How are you assuring alignment with our private equity managers so we avoid the adverse selection issue of being brought things that might not be as attractive.

CHIEF INVESTMENT OFFICER GILMORE: Look, it's a great question and maybe I should give some context here, because, you know, a lot of investors think, okay, fees in private equity are high. You know, there's a management fee and then there's a performance fee. And investors, you know, like ourselves, look to have someone investments that lower that average fee. And a typical approach is to get involved in co-investments.

Now, the history with co-investments is it's not always clear that actually not paying fees leads to better after-fee outcomes, because you could be getting inferior investments, which is the adverse selection that you refer to. So what we really want to do is make sure that we are aligned with our partners. And that alignment means being one of their most important, if not their most important, limited partner.

It also means trying to get that alignment with the fund and so really looking at fund overflow vehicles rather than doing something that's out of the ordinary. So we have to be important to our partner. They're important to us and we want to say focus on that alignment, but, of course, the proof will be in the pudding as we say, when we look back. But right now, it's alignment that is the key. I guess the second thing is making sure, of course, that the -- that the investment is well within the competency of the manager. So those two things are key attributes.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

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

COMMITTEE MEMBER MIDDLETON: All right. Thank you. Mr. Gilmore, you said that we are at 30 percent in private assets trying to get to 40. What's the pace for moving to 40?

CHIEF INVESTMENT OFFICER GILMORE: Well, I think the -- we're moving fairly rapidly in private equity. The pace extends through to 2028, because that's the path for private debt. I would say that it's not just a mechanical thing. We want to make sure that we make good investments. And from my perspective, I would sacrifice that number to make sure we make the right investments.

COMMITTEE MEMBER MIDDLETON: Okay. How much of that will come in increases in private debt?

CHIEF INVESTMENT OFFICER GILMORE: Right now, we're at just under three percent in private debt and we're scheduled to get up to eight pest. But, of course, that's some time off and it will be a function of the pricing in the market at that time.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

CHAIR MILLER: Okay. I'm not seeing any other requests from the Board. I would like to see if Wilshire has anything they want to add or, you know, comment on, highlight?

STEVE FORESTI: I want to shows off and hit the button myself this time.

(Laughter).

STEVE FORESTI: Hello, again. Steve Foresti from Wilshire, joined by my colleague Ali Kazemi. We're filling in for our other colleague, Tom Toth, who is on his way, but had a personal issue arise and wasn't able to be here this morning, but he'll be there -- here this afternoon and for your meetings tomorrow.

If we could -- if I could spend just a couple of minutes going through the economic slides we've put together that are in attachment one of this -- well, it's actually 6b. Sorry attachment one of 6b. And then as that comes up, I'll just -- so I'll quickly go through just some observations, try not to be redundant with what you heard from Lauren, hopefully be complementary to what you heard.

(Thereupon a slide presentation).

STEVE FORESTI: Ali then will give an update on some of the forward-looking estimates on the portfolio and some of the performance numbers. And then we'll just wrap up with some comments around our review letter around the trust level.

And so if we can jump to page -- slide three.

[SLIDE CHANGE]

STEVE FORESTI: So I thought I'd talk about two things. Number one, just, you know, kind of where the Fed is. And the timing is great here, because they -- they'll be meeting this week and we'll hear their rate decision on Wednesday. But just to keep it really simple, they have a -- they have dual mandate trying to kind of pick two pretty high level metrics that they look at in terms of their dual mandate. So it's price stability, so think inflation there, and it's maximum employment, so kind of the unemployment rate would be one good measure to look at.

And the bar -- the kind of Orange shaded area is when they started their current tightening cycle and it was a really aggressive one. You see the mountain chart kind of growing out of that period of time. And though they have this dual mandate, they were very much focused on inflation, so price that stability. It's almost a singular focus, because economic growth seemed to be okay. And to Lauren's point earlier, there was that Powell, Jackson Hole there will be pain, you know, speech from, I guess, a couple of years ago.

And if you look at this, you can see the unemployment rate hasn't really deteriorated that much. It's up a little bit. But that pain that was kind of promised, fortunately has not been completely materialized. Yeah, we had that little regional bank scare, I guess, a year and a half ago or so, but otherwise, I think much smoother than many expected, including Chair Powell.

So as we go to the next page --

[SLIDE CHANGE]

STEVE FORESTI: -- I just wanted to -- and I won't go through all this, but the middle panel here is the market's expectation on 10-year inflation. And so we saw the realized number on the previous page of their preferred measure, the core PC, down at 2.6 percent, so on its way to their target at two.

If you look at the middle panel, that green line, market expectations, kind of the anchoring of inflation, is also very well contained at this point. It's actually come down, you know, fairly dramatically actually in recent months here to just over two percent, so very close to the range. So not only realized is down, but kind of market anchoring on expectations is near or at their target.

So jumping to the next slide.

[SLIDE CHANGE]

STEVE FORESTI: Just quickly, what are the markets expecting the Fed to do? Two lines here. The one is the number of expected cuts this week. So be shocked if they don't have a cut. They've kind of anticipated -- they've kind of signaled this pretty well, I think. And the real question seems to be whether with it's going to be a 25 basis point or 50 basis point cut. The green line here though is what the market expects in terms of number of cuts by the end of the year. So there is, you know, four -- three -- you've got September, you've got November, and you've got December. So in the next three meetings, the market is expecting four or so cuts. So we'll see and we'll get some guidance around whatever their rate decision is on Wednesday.

If we can skip the next page and then go to, I think it's seven, the next -- the next one.

[SLIDE CHANGE]

STEVE FORESTI: Yeah. So I did want to focus on that other side of their dual mandate, which is -- which is employment. And so you did see a very slight tick up in the unemployment numbers. There is a -- this Sahm Rule that's gotten quite a bit of attention in recent months.

And essentially what it does is it looks at the rolling unemployment rate over a three-month period of time and compares that level to the low point of that same data series over the last 12 months.

And what it's attempting to do, and when Claudia Sahm, the economist at the Fed, had developed this was trying to have a very reliable signal on a recession signal when we're in a recession. And the rule basically says that when you hit a threshold of 0.5, that you've kind of slid into that. Now, she's since said that the current environment is probably a violation to the rule, that there's a false signal here. But you can see that when that 0.5 is hit, typically things get worse and it also, and I've shaded recessions here, it oftentimes -- and this may be the exception, but -- over this period of time kind of also coincides with recession.

So, you know, the headline here, and forgive me if the song gets now stuck in your head the rest of the day, is from Pink about employment not broken just bent. And I think, again, if you think about the balance of what the Fed is looking at, there is enough here to come off of their very kind of tight conditions.

So with that, let me jump forward. I want to pivot to more of a longer term on the next slide here --

[SLIDE CHANGE]

STEVE FORESTI: -- longer term issues around deficits and debt. And the reason I want to do this as you head into your asset allocation cycle the next time around, I think a lot of the relationships between asset classes are likely to be impacted by what's happening on the fiscal side. So just talked a bit about monetary policy. This now is focused more on fiscal policy. National debt in the U.S. is now over 35 trillion, so about 125 percent of GDP. These are big numbers. When Powell was asked about it, and central bankers usually try to stay out of the fiscal side of things, he was asked specifically if this was sustainable. He said the debt level is probably sustainable, but the path is unsustainable. And I think that's pretty accurate and fair statement.

Where I want to go from here is on the next page to talk about this idea --

[SLIDE CHANGE]

STEVE FORESTI: -- and I think you're going to hear a lot about this in the coming years, this idea of fiscal dominance. And basically, if you think about the combination of fiscal policy, the kind of things that happen on the spending side through Congress, and monetary policy, things that the central bank, the Fed is responsible for, when you get to a sufficiently large amount of national debt, that starts to impact, reduce the ability of central banks to accomplish their goals of again managing against employment and against inflation. So the consequences, I've listed them here, are potentially, you know, higher inflation going forward, which would lead to higher interest rates going forward, some concerns around currency -- though I'd note that this is a -- you know, this is not unique to the U.S. This is a common kind of situation around the developed world. So, you know, other forms of, you know, whether it's gold or, you know, dare I even say something like bitcoin, that have more scarcity versus fiat currencies, you know, could benefit in this environment.

And then the final point is just it creates some trade-offs and some budgeting challenges in terms of priorities on investment in spending. And that chart I'll wrap with on the next page, basically I think puts that in a picture, if we can jump to the next page, please.

[SLIDE CHANGE]

STEVE FORESTI: Yeah. So this basically just, you know, two lines here. One is U.S. spending on national defense. And then the -- I think it's the red line, the one catches up here recently, is interest payments on debt. And you can see that now, because of both that size of the debt and increase in rates that we have been talking about, the amount spent on servicing that debt is now in excess of what's paid for national defense. You can see there -- and that's not because national defense came down. You can see in the line that that's kind of increased quite a bit as well with our funding of, you know, of some the conflicts around the world.

So this becomes, you know, a bit of an issue bringing it back to asset classes. To the extent that this limits the ability for fiscal spending to support economies when a -- you know, a problem may arise, then some of the stability that Lauren talked about around geopolitics, you know, maybe gets caught in -- called into question a little bit, because the toolkit to respond to future problems could be a little less abundant than it has been in the past.

So things to keep in mind, I think some potential risks that, through the asset allocation conversation I think would be important to talk about, and, you know, look forward to having those conversations over the next couple of years, as we prepare for that cycle.

That's all I had on the economy. I'm gong to hand, as I said to Ali. He's going to start -- if we go to 15 first very quickly.

[SLIDE CHANGE]

STEVE FORESTI: These are our updated asset class assumptions. Not going to spend any time on that other than to say Ali is going to apply those to your portfolio in terms of what the -- our expectations for the CalPERS portfolio would be, so to, Ali.

ALI KAZEMI: Great. Thank you, Steve. Ali Kazemi, Wilshire Advisors.

So you have the capital market assumptions here on slide 15. If we move to slide 16 --

[SLIDE CHANGE]

ALI KAZEMI: -- you can see how those impact the current expected state of the strategic asset allocation and your actual allocation. And so up to this point, we've obviously had a lot discussion about performance, about overall state of capital markets and the economy. All of those factors have an impact into the forward-looking expectation for the fund and its targets.

And this slide shows those expected targets across multiple dimensions. The target allocation on the left is the Board's approved asset allocation. And you can see that using Wilshire's assumptions, the expected return over 10 years is 6.7 percent, so just slightly below your 6.8 assumed rate of return.

Wilshire also projects 30-year returns, which incorporate a longer term equilibrium view of capital markets. And that return expectation is 7.5 percent over the long term, which is in excess of your assumed rate of return.

The primary driver of these differences between the 10 and 30 year is to the degree that current valuations and interest rate environment impact expectations. I think Lauren touched on that a little bit with her earlier comments. Performance has obviously been very strong recently, and so that has the effect of decreasing return expectations going forward as the valuation component drives more of that 10-year assumption.

In addition to the target, we also show the expected returns for your actual portfolio and your interim targets. You can see both of those are slightly lower at around 6.4 percent for the 10-year and 7.3 percent for the 30-year. The primary driver of the lower expected returns for the actual are to -- are really due to the underweight to the private asset classes that Steven alluded to already.

The SAA has 40 percent target to private asset classes. You're around 30 percent. And so, that drives a lower expected return for the actual relative to the policy, as you continue to build into those positions. Again, that eight percent target to private credit being the biggest driver of that gap in between. But, of course, that is being implemented.

Maybe I'll pause there. The last comments we're going to have with our report are going to be on attachment four, page three. Just to speak to, you know, we've focused on the future here. That attachment is maybe looking backwards in terms of examining the impact of realized performance on your peer comparisons. So this slide provides insights into that comparison. What really should be noted that although we call this a peer analysis, you know, CalPERS really has few peers, in terms of size and complexity.

So we always view this analysis with that additional context. Case in point, you know, this is a comparison of all funds greater than 10 billion in AUM. The underweight that you currently have to private markets is almost close to $40 billion in underweight. That's bigger than most of the funds in this universe. I think that gives you that additional context when evaluating these results.

[SLIDE CHANGE]

ALI KAZEMI: You can see that over the long term, the universe rankings have been challenged. The table at the bottom contains kind of the details of that information. And reasons for those longer term headwinds have really been impacted by some of the allocation differences that we've touched on already. In particular, many of those funds having higher allocation to private markets. Over the long term, that has aided funds with a higher degree of private market exposure.

But it's also, I think, important to underwrite kind of from a qualitative perspective, we think it's fair to say that some degree of a lack of continuity from a strategic standpoint including turnover at the CIO level has impacted the ability for the team to implement a portfolio strategy in a consistent manner. And so that's something to point out.

Moving to the shorter term ranking, we want to highlight that performance has been stronger, and that has improved your peer rankings moving closer to kind of a median point. This portfolio does have a high degree of diversification built into it. If you move to slide 6 --

[SLIDE CHANGE]

ALI KAZEMI: -- you can see that relative to your peers, you have a very high allocation to fixed income and defensive assets, at the eighth percentile relative to peers. That is that degree of defensive diversification that I'm alluding to. And this portfolio should do well relative to peers should there be a slow down in the economy, and increased volatility in the markets due to that diversification.

So that concludes our remarks on our reporting. We would be happy to address any questions.

CHAIR MILLER: Great. Thank you for that. As always, very eliminating. And first question I have is from Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you.

CHAIR MILLER: There.

COMMITTEE MEMBER ORTEGA: Thank you. I have a question. I think it's on number two on this deck here, going back to the 10-year return and the 6.44. It's the -- it's the one that shows what the 10-year -- the target -- the current and.

STEVE FORESTI: That was in the other deck. That was -- that was the expected -- the expected return

COMMITTEE MEMBER ORTEGA: Yeah.

ALI KAZEMI: That's slide 16, attachment 2.

COMMITTEE MEMBER ORTEGA: Sorry. So question is about the 10-year return under the current allocation, because of the underweight being 6.44. So I have two questions. One is have we been underweight and that lower expected return since the last ALM process? So have we never reached the target? And that's related to my second question, which is how should we think about being -- you know, the return being below the expected return over such a long period of time? How do we -- how are we expecting to make that up, when we look at long -- even a longer term horizon?

ALI KAZEMI: Yes, I'll take a stab at that and, Steve if, you want to chime in. So consistently, you guys have had that underweight to private equity. And so that is what is being built into with the work being done by staff to implement to get to that target. One way to think of that is from the standpoint of the role of these assets classes. So we bucket things in terms of growth, defensive growth, defensive assets.

And so within growth, you have your public equity and your private equity. So to the degree that you are, for example, underweight private equity, one way to offset that to be aligned with your long-term strategic goals is to be overweight public equity. So you do have that economic exposure built into the portfolio, but vis-à-vis the public assets. And so that has been one way -- one lever that, I think, staff has used to kind of implement to keep you aligned with your long term objectives.

COMMITTEE MEMBER ORTEGA: Yeah, which makes sense, because with the current environment, we would have done well by having more exposure in the public market. But I guess what I'm still struggling with and I think this is a challenge I've had in all the time that I've been working on these pension issues, is that when we set the discount rate, we look at contributions, we look at expected returns, and we look at these buckets that we're going to put our assets in. And we say this is what we're going to get over a long period of time. But if we never reach the bucket, the total of the -- and with that expected return, it seems to me, we're always having the wrong -- the wrong allocation to get to the assumptions that we're building in at the beginning when we do the ALM.

STEVE FORESTI: If I could just make on point. I think it's important to note that with the recent increase you had, if that increase to private assets hadn't taken place, you were -- you were not only at the target, but, you know, poised to go over it.

COMMITTEE MEMBER ORTEGA: Um-hmm.

STEVE FORESTI: So this is in a perpetually -- you know, this is -- this was a strategic decision, you know, if we go back to the PERF mid-cycle conversation, informed by the ability to put the dollars to work in a -- in a successful way. So previous versions had capped the amount because of the organization's --

COMMITTEE MEMBER ORTEGA: Um-hmm. Right. So maybe

STEVE FORESTI: -- you know, thought in terms of what they were constrained to be able to put in the ground.

COMMITTEE MEMBER ORTEGA: Okay. I understand that. And that -- thank you for the reminder that we just increased, but that goes back to what my first question was is have we been -- have we been underweight, at least at some level, since the beginning of the ALM? And if you're saying, no, it's only since the increase that we just recently did, I think that's a different issue.

STEVE FORESTI: I think you've been underweight on average over long periods of time, but the more recent -- before raising this number, you were at target. I'm sure, you know, people have the exact numbers in front of them here, but for the last 20, 30 years, and it goes back to the financial -- 2008 financial crisis, there's been an underweight to private -- the private market target.

ALI KAZEMI: And so, as a reminder, the private debt allocation was a brand new allocation.

COMMITTEE MEMBER ORTEGA: Um-hmm.

ALI KAZEMI: And so that eight percent we knew going into that was going to take time. It's one of the reasons you do have that interim policy, which is a combination of some of the existing public assets, where proxies were built into at least resemble as much of the beta of that allocation that you could replicate via the public markets to use as a placeholder while you fund the actual private credit allocations.

And to Steven's point, the importance there is to find good deals. And so not to rush into it.

COMMITTEE MEMBER ORTEGA: Right. Thank you.

CHAIR MILLER: Next, Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. Ali, I would tend to agree with you that there are not too many peers to CalPERS, but I'm struggling with the $10 billion threshold for including in a peer report. Even if we were at $50 billion, we would be talking five times what the existing threshold is and still only 10 percent of what our assets are. Is -- what's the logic or the criteria that is causing you to start it at 10 percent -- or, excuse me, at 10 billion?

ALI KAZEMI: It's not an uncommon question that we get when we talk about peer analysis. The balance and the trade-off is, the more you extend and increase that cutoff, the smaller the sample size. And so then the results you get can be perceived as more noise than actually being able to evaluate it through the lens of, you know, true peer comparison. So it's a little bit of art, a little bit of science with that. But why we remind of that context when we -- when we present this information is meant to deal with that issue.

COMMITTEE MEMBER MIDDLETON: I can appreciate it. Simply my reaction as a Board member is I'm not sure what to make of a comparison that includes funds this small. Size does matter. And one of the fundamental issues for an organization like CalPERS is how to be effective managing our size and our scale.

ALI KAZEMI: I wouldn't disagree with those comments.

COMMITTEE MEMBER MIDDLETON: Thank you.

CHAIR MILLER: I'm not seeing anymore requests -- oh, I am. And I've got Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And a quick question in terms of -- and I know you don't have a crystal ball, but I want you to look, and what do you see on the horizon, including the risks, you know, that are obvious, that you have mentioned some of them obviously, you know, the geopolitical risks, the tight race that's coming up with the Presidential race here in -- domestic at home, the national debt, China, AI, et cetera, et cetera? Any proposed revisions or policy changes, recommendations that the Board should be made aware of at this stage or later?

STEVE FORESTI: Other than the ones we talked about. And, you know, we just came off of a mid-cycle asset allocation review, brought risk down in many of the funds, you know, including the conversation this morning. I think that's entirely consistent with, you know, if we had a crystal ball what we'd see in it, which is feels like a lot of the returns to equities have been pulled forward with the -- with the, you know, pretty exceptional performance. 2022 was challenging. But beyond then, it's been, you know, pretty spectacular performance, so there's a vulnerability there.

I will say, and this goes back to a question you asked Lauren earlier about, you know, some of the risks that are out there in terms of the capital market assumptions, you know, as somebody who's kind of responsible for the assumptions that Wilshire puts together, you know, I thought it was a question, because it hits on what I think one of the big risks are, if you look at our -- the asset class assumptions right now, there's very compressed, expected, equity risk premium, which in simple terms is just how much we expect equities to outperform core fixed income, bonds. And, you know, part of the reason for that is this great return we've scene, valuation levels.

And if you think through what that's suggesting, it's suggesting that market participants think that those valuation levels that seem extreme are, in fact, legitimate, because of the incredible productivity gain or growth that we'll see in AI and, you know, other breakthroughs. So, you know, we're worried about downside risk appropriately, because I think there's quite a few reasons to be concerned about downside risk. But the other risk is that, you know, maybe the market isn't quite that wrong with these valuations and maybe the equity risk premium, you know, will be bigger than we're forecasting.

Now, I'd say that would be a welcome risk, because you have lots and lots of exposure to that equity risk premium, but I think that is, as you think about capital market uncertainties, one of them. I'll just reiterate what I talked about in the fiscal dominance slide, you know, I think inflation certainly looks to be, you know, pretty well contained right now. I think over the next 10, 20, 30 years inflation will be a much, much bigger deal than we've experienced over the last 10, 20, 30 years. I just think it's a -- we're heading into a different environment. I think the portfolios that have worked in the past are unlikely to be optimal portfolios in the future.

And that, you know, gets back to the comment I said, you know, I think these are all really important conversations to have leading up to your next asset allocation setting.

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

CHAIR MILLER: Okay. I've got Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you. I just want to go back to what Director Middleton brought up with respect to the comparison. And in looking at the chart that you put up, it's unclear who the comparison is against? Is it just Wilshire clients or is it a broader universe?

ALI KAZEMI: It's a broader universe.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. I guess could we ask for you to come back with some analysis, so if we cutoff the sample set at 200 billion, how many plans would we be looking, at 100 billion, how many plans? And could we also ask you to consider non-U.S. plans as a comparison? They may not be completely comparable, but again you have to weigh is 10 billion U.S. plan more comparable or is a 200 billion dollar non-U.S. plan more comparable? So if we could just get some assessment, so that we ourselves can see what those numbers look like?

ALI KAZEMI: Yeah, I'd be happy to follow back up with you on that.

ACTING COMMITTEE MEMBER GALLEGOS: That would be great.

ALI KAZEMI: Just knowing what I know about the universe, we're probably talking like single digit numbers for plans.

STEVE FORESTI: But the answer is yes for sure.

ACTING COMMITTEE MEMBER GALLEGOS: Okay.

STEVE FOREST: But I think, you know --

ACTING COMMITTEE MEMBER GALLEGOS: And you've probably done this before. I'm guessing this is not the first time for that.

STEVE FORESTI: The numbers get small pretty quickly, but for sure, we'll do it, and then we can, you know, pick a path forward from there. I do think, and this is to -- you know, to the point that Ms. Middleton brought up and that you're reiterating here, I think it should also put in perspective how important these universe comparisons are. They're interesting. They're nice to see. They can tell you things that maybe you might want to think about, talk about what are they doing differently. But in the end, the deliberations here should be specific to your goals, your circumstances, your risks, et cetera.

So I would just, you know, make that comment, but of course, we'll be happy to carve it up however it makes sense.

ACTING COMMITTEE MEMBER GALLEGOS: Fair comment.

Thank you.

CHAIR MILLER: And next, we have President Taylor.

VICE CHAIR TAYLOR: So I -- oh, it is on. So I think I was actually going to ask what you meant by your comments on future -- our future investments looking worse, you know, and what exactly did that mean?

STEVE FORESTI: Yeah. So I don't know if worse is the right -- the way I'd summarized it. I think the relationship -- so this could go off into a very long conversation, but one --

VICE CHAIR TAYLOR: Sorry.

STEVE FORESTI: -- one example would be the interaction between asset classes, you know, so think about, you know, correlation, diversification, stocks versus bonds as an example. Those relationships are very different in an environment that's characterized by, you know, more volatile inflation expectations against one that is very benign, low inflation. So suddenly the diversification properties of asset classes could potentially break down.

And that's what I mean about the portfolios that may have worked -- you know, again the poster child is 60/40. Nobody really holds that anymore, but that sort of portfolio -- and we saw a little glimpse of it in 2022, right, where -- well, what happened when saw this bout with inflation, both those asset classes got kind of taken out to the woodshed at the same time? That was a breakdown in diversification, a completely predictable one if you knew that, you know, inflation was going to spike to nine percent in advance. But that's -- I'm not talking about to that degree, but it's those relationships that I'm talking about. And, you know, how do you -- how do you mitigate some of that? Well, you bring in some --

VICE CHAIR TAYLOR: Well, what makes you think that the inflation is going to go up, that that's where we're headed is to a more inflationary --

STEVE FORESTI: Potentially.

VICE CHAIR TAYLOR: Potentially.

STEVE FORESTI: But more volatile inflation, meaning, you know, we could almost forget about inflation over -- most lives of investors, you know, in our industry never really had to think about inflation honestly, like until very, very recently. And so a lot of investors are kind of just programmed by what they've seen. And this could be very seasoned people in the industry that have been around for 20, 30 years investing. I wouldn't -- all I'm saying is let't not discount that we go back to two percent, we stay there, and there's no concern about inflation.

And the reason I'm saying that is because we're heading into this next environment with mountains of debt that changes the way interest rates behave, changes our borrowing needs. And borrowing needs, you need somebody to lend that money, and they're going to -- they're very likely going to demand a higher interest rate. So that's -- these are the pressures on inflation that I'm talking about, and they have knock-on effects. I'm just not brining it up, so we talk about interesting stuff around the economy. They have knock-on effects to not just the expected return for asset classes, but the path and the diversification properties.

So that's kind of what I was kind of hinting at with that slide.

VICE CHAIR TAYLOR: And that's the unsustainable path that we are with our debt basically that would cause this inflationary exposure?

STEVE FORESTI: Yeah, I mean, we're -- so if you think back to that net interest payment chart I showed, it's pierced through a trillion dollars. I mean, that's three billion dollars a day in interest. That's a billion dollars in the time we'll be sitting in this meeting today. That feels --

VICE CHAIR TAYLOR: Oh, wow.

STEVE FORESTI: And if you add another two trillion every year, which is kind of the pace we're on right now, that feels pretty unsustainable, yeah.

VICE CHAIR TAYLOR: Yeah. We don't have control over that.

STEVE FORESTI: Well, and we have an election coming up, but, you know, frankly neither candidate is really talking about bringing spending down very much.

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

COMMITTEE MEMBER PACHECO: Yes. Thank you, gentlemen, for your -- for your input. I just have -- I have a question. It's kind of on page -- I'll be very specific, page 6b, attachment 1, page 22 of 64. It's the CalPERS peer attribution fiscal year-to-date. So I just want to understand -- my understanding of the total fund return contribution percentage. I noticed that in the private equity, it was negative 2.3, but the difference was negative 12.74. But on the transverse to that, the real asset was 4.73 and the total fund return contribution was 0.71, I just want to understand how that relates to the -- to the benchmark and so forth, if you can...

ALI KAZEMI: So just so I'm clear, which page was that?

COMMITTEE MEMBER PACHECO: It's on page 22 of 64.

ALI KAZEMI: Okay.

COMMITTEE MEMBER PACHECO: It's the CalPERS -- PERS attribution fiscal year-to-date. That's exactly right.

ALI KAZEMI: Yes, I have that. And so apologies, can you remind me of the question?

COMMITTEE MEMBER PACHECO: No. No. That's fine. That's fine. And it's the -- and how does that chime in with respect to the performance?

ALI KAZEMI: So that is going to be the attribution fiscal year to date.

COMMITTEE MEMBER PACHECO: Um-hmm.

ALI KAZEMI: So of the, let's say, a hundred basis points of underperformance, most of that is coming from that active management piece.

COMMITTEE MEMBER PACHECO: Okay.

ALI KAZEMI: So relative to your policy targets, you're well aligned with the policy targets, so there's not a lot of drift driving the underperformance. So then you can go into the individual asset classes and what is the biggest driver of that underperformance? The one that stands out there, this was the point that Steven brought up --

COMMITTEE MEMBER PACHECO: Right.

ALI KAZEMI: -- is private equity. So 210 of that 100 basis points is coming from that private equity sleeve. So that -- what that tells you is some of the other areas are actually outperforming --

COMMITTEE MEMBER PACHECO: Right.

ALI KAZEMI: -- relative to the benchmark. You just have this kind of anchor in terms of the impact of benchmarking private assets, which when you have returns that are so disbursed like they are now, gets magnified. It's one of the primary reasons why a few years ago staff moved to the actionable tracking error budget --

COMMITTEE MEMBER PACHECO: Right.

ALI KAZEMI: -- really to ensure that we shine a light on the areas of the portfolio where staff has the ability to add value and drive excess returns, and less focus on this type of analysis, which again tends to be more noise than it actually --

COMMITTEE MEMBER PACHECO: And you're referring to the policy bands, right, the --

ALI KAZEMI: So there are policy bands relative -- so your rebalancing ranges.

COMMITTEE MEMBER PACHECO: Right.

ALI KAZEMI: We also have an extra element, which is the actionable tracking error budget, which is --

COMMITTEE MEMBER PACHECO: Correct.

ALI KAZEMI: -- to the degree that you differ from the benchmark and the amount of volatility that that introduces, there's about a hundred basis points of allowance there for tracking error, which has been well lower in terms of what you've actually --

COMMITTEE MEMBER PACHECO: I think it was about -- if I recall, it's like 14 or something like right now?

ALI KAZEMI: It's been very low, correct.

COMMITTEE MEMBER PACHECO: So -- and that gives us enough runway for additional active management.

ALI KAZEMI: Correct. Correct. And we'll touch on in the Program reviews some of that deployment coming up here in one of the next agenda items.

COMMITTEE MEMBER PACHECO: Okay. Very good. I just wanted to get some understanding of that, because it -- the numbers seem to be a little -- I didn't understand that and I wanted to get some clarification. I think that -- it's a pretty interesting observation. Thank you very much.

ALI KAZEMI: Thank you.

So we just -- we had one last item.

STEVE FORESTI: Which, you know, we don't need to bring up. It's Attachment 3 was our letter, which is on the -- it's attached to the Program reviews that are coming up in the next two agenda items for global fixed income and global equity. Part of that qualitative program review is a scoring model that we use. The organization score is broken into a team component, so, you know, think about the Global Fixed Income team, the Global Equity team respectively there. But then there's what we refer to as firm component would be a broader, in this case, INVO-wide, you know, qualitative assessment.

So I'll be super brief here, because these again feed those other program reviews, but we've talked about this in the past, just the -- that firm level score remains challenged, you know, just around stability of the senior team. Obviously, there was, in the last fiscal year, departure of the CIO, more recently retirement of the -- of the MID of Private Debt. So that keeps that score very subdued.

You know, on the flip side is you had a, you know, very robust global inclusive rigorous search for a new CIO, which obviously has concluded, you know, with Stephen joining the organization. That's a new development. We've had very productive, you know, conversations and interactions, a lot of it focused on, you know, this concept of total portfolio approach to asset allocation, really working with getting risk targets set and understood. So more to come there. These are obviously very early days.

And then in our letter, again I won't go into a lot of detail, we did cover, because it goes across the different program reviews, the Sustainable Investing team. You brought on an MID about I think it was a year and a half ago. That is very well integrated throughout the Investment Office through the public markets, private markets. You've talked a lot about last fiscal year Labor Principles. You made a lot of progress on responsible contractor and that will -- looks to be settled or, you know, voted on, approved this fiscal year.

So again just lots of positive developments there. Stephen mentioned the climate transition, you know, index on the public equity side or earlier. So those are positives against that again INVO-broad score. But more to come in these next two agenda items as we talk about the Program reviews for Global Fixed and for Global Equity, but happy to -- happy to take any questions now.

CHAIR MILLER: Okay. I have a question from Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Well, thank you. I was -- since you pointed out the letter, I was going to point out that I really appreciate the sustainable investment highlights section. Thank you for raising the, as you call it, the positive development. So I just -- it was just going to be more of appreciation of bringing that up. Thank you very much.

STEVE FORESTI: Sure. Thank you.

CHAIR MILLER: All right. I think that about covers it for of 6b. Thanks for that again. Always clear, comprehensive, and appreciate everybody's engagement, and questions, and everything as well. So I think that about covers it.

And I think now we'll break for lunch and we'll be back at 1:40, is that -- 1:30. Okay. 1:30 we'll be back and we'll pick it back up with 6c Global Fixed Income at that point. Okay. We're in recess until then.

(Off record: 12:41 p.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 1:30 p.m.)

CHAIR MILLER: Okay. Let's reconvene here.

More folks wandering in and getting seated. So, I guess, at this point, to finish up with 6b, I just want to check and see whether Wilshire wants to come up and share a few words or thoughts. Oh, there's Steve.

VICE CHAIR TAYLOR: Meketa, you mean.

CHAIR MILLER: Meketa rather. We just -- we heard from Wilshire and see if Meketa wants to come up. There's Steve McCourt and -- for trust level review.

STEVE McCOURT: These are new.

CHAIR MILLER: Yeah, they are. They're very directional, so they're nice.

STEVE McCOURT: I'll back away. Steve McCourt, Meketa. Thank you, Chair Miller.

Meketa has provided in your packets our trust level reviews for the three private market asset classes that Meketa overseed[SIC] for the fiscal year ending June 30th, private equity, and infrastructure, and real estate.

Maybe I will spend just a couple of minutes with a more kind of qualitative oversight of each of the three and I'll leave plenty of time then for any questions from -- from the -- from the Committee.

As you heard earlier, private equity, as an asset class, underperformed its policy benchmark for the trailing year. That was not a function of the performance of the private equity portfolio per se. It was more a function of the public markets growing significantly during the year. Over longer time periods, the private equity return has been quite strong. For the trailing five years, the portfolio was up 12.4 percent per year, and over the last decade, 11 percent per year on average. Each of those are meaningfully in excess of the equivalent returns in the public markets, and slightly below the return of your -- of your policy index.

The most notable evolving change in your private equity portfolio has been the increased use of co-investments over the last several years. It's a notable change that, as you all know, reduces the overall fees and expenses of the Program. And I'll highlight that the performance of the -- of the co-investments in the portfolio over the last three years have been the highest performing style of investment within your -- within your private equity portfolio, returning 12 and a half percent over that three-year period.

It's still early in the context of the growing co-investment program that your staff is now running. But I wanted to highlight that at least the early returns have been strong in that area. And I think I'll just make one or two comments on the broader private equity marketplace. As has been reported before, the higher interest rate environment has suppressed somewhat both deal making within private equity and also fundraising within private equity. That being said, there's been a modest rebound in 2024 so far in transactions and distributions from the private equity marketplace. And the most notable change that we've observed in the marketplace broadly is as valuations remain elevated for private equity transactions, with each passing year, on average, more of the capital for private equity transactions is supplied through equity capital as opposed to debt capital.

So through last year, the average transaction included roughly one-third debt and two-thirds equity. If you go back about 20 years, 25 years, that ratio would have flip-flopped. So less leverage in private equity transactions today than there used to be historically. And that's partly a function of the interest rate environment that we're in today.

I'm going to make a couple of notes about your infrastructure portfolio. Returns here have been quite strong over all time periods. For the trailing 10 years, your infrastructure assets have returned nine and a half percent per year, which have been four percent per year above the benchmark over that time period. The

Infrastructure Program at CalPERS has increased meaningfully over the last few years and now represents a little more than three percent of the total fund, which is roughly triple its size, relative to the total fund just seven or eight years ago. So significant capital being deployed in the infrastructure area. Returns have been strong and productive in that area, despite the fact that those -- many of those commitments are newer.

I'd also like highlight within our infrastructure report that all of the various subsectors of infrastructure, in the core and value-added strategies that are employed by your staff have all produced positive returns over the last year. So unlike real estate, where I'll get to in a moment, where returns have been quite varied, in the infrastructure space returns have been fairly consistent across different styles of infrastructure.

And then finally, in summarizing real estate, your real estate portfolio produced a return over the last year of negative 10.8 percent. That was actually slightly better, believe it or not, than the broader real estate benchmark that you compare yourselves to. Real estate, as an asset class, as you know, has been challenged over the last 18 to 24 months. Your portfolio has reflected those challenges over that time period. Over the trailing 10 years, real estate, as an asset class, is up 5.2 percent per year for you. This year, what's notable relative to prior years is even some of the real estate sectors that have, since the COVID pandemic, experienced stronger demand from tenant bases. Multi-family as a sector and industrial as a sector also had negative returns, albeit less negative than some other sectors. And that's largely a function of the impact that rising interest rates have had on the valuations of real estate more broadly.

I do want to highlight that within real estate, the returns across different sectors have been quite varied. Some sectors being down about five percent and some sectors being down about 30 percent in the case of office. So a wide discrepancy of returns within the real estate sector. Your portfolio remains very well diversified across sector.

Then the final thing I'll highlight is we also report on your core real estate portfolio since -- for the last decade in a bit. That has been the primary focus of your investment team at CalPERS. The core portfolio continues to produce returns that are superior to the broader real estate marketplace and your benchmark. For the trailing 10-year period, the core real estate portfolio was up seven percent per year on average compared to 5.8 percent on average for your benchmark.

All three asset classes as of June 30th were invested within the policies that you've set forth for them. And all three are being invested in a way that's aligned with the strategic plans that have been communicated to you by staff.

That concludes my report and we're happy to take any questions that you might have.

CHAIR MILLER: Thank you for that report. That's much appreciated. And we have questions. And I'll start with Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Mr. McCourt, thank you very much for your report. My first question is thank you for highlighting the co-investment part of our portfolio. And I noticed that in your -- in your letter you mentioned that we are increasing our allocation to co-investment and adding through portfolio diversification, as well as identifying high quality managers. And I just wanted to know in that process how has that -- how has that been going for the last 12 months?

STEVE McCOURT: Yeah. Great. Maybe I'll ask Steve Hartt to come up here to kind of provide some detail there as well. But I'll answer first more generally, that staff has done a strong job in moving the portfolio towards the direction that they've expressed in the strategic plan towards more diversification across different styles of investing, and, of course, within co-investments as well.

STEVE HARTT: Yeah. Thanks very much. Steve Hartt, Meketa Investment Group. I think that the area of co-investments is one where CalPERS can really take advantage of its scale. And it wasn't many years ago that CalPERS didn't do any co-investments at all and the GPs just didn't even bother calling.

Staff has been working to develop systematic structures in place to be able to sort of, more or less, automatically, they have the right to opt out of deals with automatically invest in co-investments that the GP might have with the focus on managers that they've underwritten for their funds. So, you know, they know the manager well and have strong conviction. And then they have this programmatic way that really helps the GP be able to have confidence that they're going to have the capital there to be able to do the deals that they need to could. And that way, you know, CalPERS is really being able to use their scale to differentiate themselves from other LPs in the marketplace and get access to good co-investments.

COMMITTEE MEMBER PACHECO: And that co-investments, from what I read in the letter, seems to be, you know, as we're moving more and more into venture and growth equity. And that's part of the -- part of the strategy there.

STEVE HARTT: Overall the portfolio is looking to increase diversification.

COMMITTEE MEMBER PACHECO: Right.

STEVE HARTT: So historically CalPERS has been very heavy in the mega and large buyouts.

COMMITTEE MEMBER PACHECO: Right.

STEVE HARTT: And so the -- starting with funds and finding growth equity funds and venture managers to be able to allocate capital to, on the fund side. And then as it makes sense to be able to do these programmatic co-investment vehicles as well alongside those particular managers. So it's a development. It's very hard. It's an area where scale does not help CalPERS in the early stage -- particularly, the early stage off venture capital, where the funds tend to be smaller. But staff has been working in sort of, you know, very effective and creative ways to also be a strong source of capital to go alongside some of those smaller vehicles as well.

COMMITTEE MEMBER PACHECO: And just a clarification, just a point of clarification, on -- with respect to co-investments, it's my understanding that when I read the other report on the dry powder -- like dry powder has been increasing in the -- in the P -- in the private equity universe, but with respect to co-investments, the deployment of the -- of the funds just go right into the system, like the J curve is basically augments, is that correct? I just want to -- just some understanding on that.

STEVE HARTT: You know, I'd say well over 90 percent of the time, the -- when the co-investment is structured and done, all the capital is put in right then, sometimes a little bit is held on for some further on investments or things of that nature. But you're right, that co-investment is a way to deploy capital more quickly --

COMMITTEE MEMBER PACHECO: Um-hmm.

STEVE HARTT: -- and not have to wait for the GPs to find the deals. When you make a commitment to the fund, there's typically a five-year time period the GP can look for deals. With a co-investment, it's usually done within weeks, if not months.

COMMITTEE MEMBER PACHECO: Incredible. That's absolutely incredible.

STEVE McCOURT: And that -- and that matters, of course, because the co-investments not only more or less side-step the fund level fees. But because there's no commitment period or J-curve with the co-investments, you don't have to overcommit to as many funds for the same investment level, and so it's a more efficient way to put capital to work in the market place.

COMMITTEE MEMBER PACHECO: Oh, I can -- I can see it now. The -- it's very effective actually. It's a very effective process. Thank you very much for your comments. I appreciate it very much.

STEVE McCOURT: Sure.

CHAIR MILLER: Okay. Next, we have Deborah Gallegos for Controller Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you. Just going back to your comments earlier about interest rates. How has this affected manager' leverage and have you seen some cracks in their strategies with respect to exposure to floating rate instruments and should we, now that we're -- given there's a few quarters lag in performance, should we expect to see that reflected in performance?

STEVE McCOURT: So I'll provide an answer on the broader context of the marketplace and maybe Steve has some anecdotes on specific deals. What I was alluding to with the amount of leverage in transactions was at the leverage buyout marketplace broadly. What we've seen for sever years now is that the average purchase price of a company, and by private equity, has continued to increase modestly. But the proportion of the capital used to purchase a company has become -- has come much more from equity than from debt.

Part of the reason is debt is more costly now than it was three or four years ago. The other -- the other part of the reason is that bank financing is less available today than it was five, six, seven years ago. So the transactions are less leveraged. Some of it has to do with economic judgment on the value of debt capital versus equity capital. Some of it's just reality of availability of debt capital in the marketplace.

VICE CHAIR TAYLOR: Mic.

There you go.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. There we go. Sorry. I'm referring to holdings we had going into the increase in interest rates --

STEVE McCOURT: Right.

ACTING COMMITTEE MEMBER GALLEGOS: -- as opposed to the new deals being done since the increase in interest rates.

STEVE McCOURT: Yeah. That's -- at the total market level rising interest have occurred as the economy continues to expand and grow. So there hasn't been yet anyway significant evidence of stress in business models or financing structures broadly. I'm not sure, Steve, if you have any other detail you'd want to share.

STEVE HARTT: Yeah, I think that's -- I think that's right. The number of bankruptcies has not really skyrocketed or changed that way. And, you know, as Steve mentioned, the trend of putting more equity into deals has been taking place over a long period of time. So what that means is that there generally has been less debt. The thing that had really changed in 2022 is that that debt actually now costs something. So they had it on there. And then instead of putting money in for buying something else or doing it, they now had to actually take some of their profits and pay down debt.

So that's just been something they just had to kind of -- the GPs have had to manage around.

ACTING COMMITTEE MEMBER GALLEGOS: Um-hmm.

STEVE HARTT: But it hasn't been one where it's dramatically affected the value of the overall private equity portfolio values.

ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank you.

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

COMMITTEE MEMBER RUBALCAVA: Thank you. I thought somebody else would get to this point quicker than -- I mean, anyway, my question is on real estate. We can't ignore it. Your letter says it is. Presentation was challenging, but -- and yet, we're diversified, so that's a good thing, but it's still down. But your letter says it generates income. So if you could speak to two things. One, how is that helpful to us, and second, when is it going to improve? You mentioned that the dust will settle at some point, but when will that dust settle and what do we do until then? Let me know of those things. Thank you.

STEVE McCOURT: Yeah, I'll have Christy answer the harder question. On the income, I would just highlight that as a plan that has net cash outflows, you pay more in benefits in expenses every year than you take in in contributions, it's helpful to have asset classes that are net suppliers of income on a annual basis. And irrespective of whether real estate values are going up and down, it continues to be a predictable source of cash income for that piece of the -- of the portfolio.

And I'll have Christy answer the dust settling question.

CHRISTY FIELDS: Thank you. Christy Fields, Meketa. I do want to say that while we're seeing negative returns in the asset class, you're not actually realizing those returns right now. Your -- those are appraised values that are declining. And so the majority of your assets are held in long-term vehicles, most with fixed rate financing. And so, you're able to kind of hold those assets and ride through these periods of kind of pricing volatility. The size of the decreases have gotten smaller and smaller over their last few quarters. And, in fact, we've seen a couple of the transaction-based indices, so indices that are actually recording actual sales of assets, turn and start to record slight increases in values again.

And so those are a little bit more front or leading indicators than the appraisal index that you're -- that is the ODCE benchmark that you're using. So we're hopeful that those increases will translate to the ODCE index as well here at the end of this year and perhaps into the new year.

COMMITTEE MEMBER RUBALCAVA: Thank you. That's very good to hear.

CHRISTY FIELDS: Yeah.

COMMITTEE MEMBER RUBALCAVA: The other one is a more positive question. Infrastructure is strong. Are we going to see that continuing? Are we -- do we have more options there or what's the -- what's the future for infrastructure? It seems to be something we should need to focus on.

STEVE McCOURT: Yeah. So infrastructure

continues to produce, as an industry, fairly strong returns post-COVID. One of the big areas that is supporting the need for capital and returns in infrastructure is both the energy transition, but also the need for more energy being driven by data centers and AI. So as that demand continues and the infrastructure asset class is the primary source of capital for developing new power in the U.S. and across the world, there's some nice tailwinds at least being able to deploy capital productively in that area.

And other segments of the infrastructure marketplace, whether it's ports, transportation, which are more economically sensitive, those have continued to produce solid results, because the economy has kept growing. But that element of the -- of the portfolio could be more at risk, if there's a hard landing and a recession. But so far, there's not much evidence of that.

COMMITTEE MEMBER RUBALCAVA: Thank you so much. Thank you, Mr. Chair.

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

COMMITTEE MEMBER MIDDLETON: All right. Thank you. The comment you just made regarding AI and the tremendous increase in electricity demand, do we have a sense of what that increase is actually going to be and what that means in terms of the potential profitability of the green energy commitments that we have made?

STEVE McCOURT: There are estimates that experts have made on energy demand as a result of AI and data centers being built out that are material, you know, in the order of magnitude of another percent higher growth rate each and every year for the next 20 years on energy demand within the U.S. All else equal, you know, energy demand requires more investment, which is, I think, good for an investor like CalPERS that has capital to put to work in productive asset classes and projects.

And it also, all else being equal, causes the price to go up a bit, which is better for investors that have been invested in the space. So it's a -- it's a -- the AI, I don't know if it's a revolution or a renaissance, but it has certainly allowed a massive amount of investment in the space in the last couple of years. It's likely to continue and that should continue to benefit the asset class as a whole.

COMMITTEE MEMBER MIDDLETON: Okay. Thank you.

This is probably more a comment than a question, but so much of the debate on ESG, and on renewable energy investing, and fossil fuels have been argued in a political context. And I think we need to very clearly be able to enunciate the financial underpinnings of the strategies that we have taken on. Thank you.

CHAIR MILLER: Okay. I'm seeing no more requests to speak. And just thank you all for all the input, information, and all the work that went into it, and all the working with our staff and all of us, and we certainly appreciate it.

STEVE McCOURT: Thank you.

CHAIR MILLER: Okay. Next, we will move on to 6c, Global Fixed Income.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. This is the first of our two capital markets annual reviews. So we've got Arnie Phillips stepping up to the mic.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR PHILLIPS: Good afternoon. Annie Phillips, Investment staff. I must say not used to walking up here into an environment where so many positive things have been said about fixed income during the morning.

(Laughter).

MANAGING INVESTMENT DIRECTOR PHILLIPS: I'm thankful to Steve Foresti for throwing a little bit of cold water on that makes me feel a little bit more comfortable up here.

(Laughter).

MANAGING INVESTMENT DIRECTOR PHILLIPS: Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: Next one actually.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So I think it's important whenever we do these reviews to remember why we have each of the asset classes. The three primary roles for fixed income are to be a long-term economic diversifier, reliable source of liquidity and income. And as the Investment Office deploys more illiquid private assets and leverage, the role of liquidity becomes even more important. And I think a lot of the positive comments this morning sort of come from the fact that there's actually income in global fixed income again. And I think that's a really strong argument looking forward for the asset class, but certainly share a lot of the concerns that Steve referenced.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this chart has been redesigned. It's actually a chart we use in an internal management report. And I think it summarizes in one place all the different areas that fixed income touches, the market values, the dollar value-add. Importantly, a lot of my staff that's actually the folks who are actually responsible for that dollar value-add are in the audience today. It details whether we're internally or externally managed and whether the mandates are active or passive. And I think it does it in a really good way.

We're nearly 30 percent of the fund and, you know, looking at this, I think you can quickly see, you know, the areas that we cover.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So Lauren covered a lot of this in her economic review this morning. But in fixed income we are certainly -- and we'll get an answer this week at least we expect. The Federal Reserve is certainly front and center for us. How much they're going to lower rates? Can they keep the economy out of the recession? Steve Foresti mentioned the equity risk premia being quite low. A lot of the fixed income assets are also trading at pretty rich levels. Also, counting on us not going into a recession. So that will be extremely important. And then for the foreseeable future can they keep inflation low.

One thing we have noticed over, you know, the last two years has been a lot of buyers out there, and I think you saw it even in the long-term care report this morning, overall yield levels are just really attractive for asset allocation, and specifically for fixed income, because they've been lacking for so long. And so while we -- and from a valuation standpoint, we tend to look at relative returns. We look at spreads to treasuries. We look at those things. A lot of the world just simply looks at the yield and goes this is pretty attractive for the risk level. And so we have seen a continuation of assets moving to fixed income assets globally.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So the next 14 slides were produced by our -- the Investment Office's Investment Risk and Performance Group. And I thought I'd just take a minute to maybe orient you to some of the factors on here. You'll see them in Simiso's report too. So I figure it might be good to go through them. So the -- on the bottom -- so Stephen talked about the cone charts on the bottom left. Those show the returns sent since the new asset allocation went in. So the past two years relative to a 20-year capital market assumption.

When you look at the metrics on the right, a lot of them -- it's not on this one, but on all the remaining ones for fixed income, you will see a 10-year Sharpe ratio but a five year information ratio. And our Investment Performance Team that was deliberate. A Sharpe ratio shows the portfolio return relative to a risk-free rate adjusted for standard deviation, but think of it is volatility. So really looking at has the asset class performed relative to your capital market assumption? We have 20 year CMAs, but they have 10-year numbers. We felt that was more representative than say a five-year number.

When you look at an information ratio, it shows how the portfolio did against its benchmark adjusted for tracking error, again, think volatility, but chose whether the manager actually added any value over their targeted benchmark. It shouldn't take 10 years for us to figure out if they've added any value, so five years is a much more relevant figure for an information ratio.

Sharpe ratios should be positive. You'll see some of the fixed income ones are actually negative, because rates have gone up during this period. You'll see positive numbers when Simiso gets up here. And then Sharpe ratios, kind of 0.5 is viewed as a good number. So I think that will help orient us as we go through the next few charts.

On this chart here, the treasury portfolio is passive in nature, as shown on that prior chart. And so there isn't really value-add from the manager, so you don't see an information ratio here. A Sharpe ratio is certainly impacted by rising interest rates.

Next page, please

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So when we look at the performance here -- and actually, can you go back to the prior side real quick.

One thing that was noted earlier, and it's in Wilshire's report, and Steve did throw a little bit of water on it longer term, but given where interest rates are at today, we do believe, and Wilshire shares in their report after our report here, that we do expect the correlations to actually be negative to treasuries in the event of a downturn. And we sort of saw that in early August of this year. There was a little bit of a bump in equities and the treasury market rallied substantially.

To give you an idea, the treasury market is up almost nine percent since July 1st, our index. The remaining four fixed income segments are on an average of about five, six percent. So the fixed income assets have certainly appreciated into this environment and have resulted in us having a little bit of a cautious view similar to maybe where the equity markets are at.

So next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So again, this slide you see no active risk. It's passively run. I think the thing worth noting here is on the bottom right, the bottom right shows the portfolio's interest rate exposures relative to various points on the curve. You'll see this on each of our segments. And I think what's worth noting on the treasury segment is how long our interest rate exposure is. You see a lot of the bigger bars are kind of 15 to 20 year and 25 year plus. So we have a lot of interest rate exposure there. It's intentional in the strategic assets allocation to be a diversifier to equities.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So, now we get into -- the rest of them will show most of the metrics that I chatted about earlier. This one shows our agency mortgaged-backed segment. It's also one of our largely credit risk-free assets. The darkest portion of that pie chart is Agency MBS guaranteed by the U.S. government or implied guaranteed with small percents in commercial mortgage-backed, asset-backed securities and things like that.

Again, interest rate rising has impacted the bottom left cone chart. Still certainly within expectations, but a little bit below expectations over the prior two years. And the information ratio here 0.6 is very strong.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: This will probably be the last time I talk about this slide in each of the segments, because it doesn't really add much value. It shows the return of the portfolio relative to the volatility. All of our segments currently are -- given where spreads are at, look from a volatility standpoint in the same neighborhood as the benchmark. They'll all show outperformance. But going forward, they're in here, but I'll probably skip all those going forward.

Next slide, please

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: The mortgage segment is actively managed. But as you can see from the tracking error right now, not a lot of forecasted risk. But again, looking down at the bottom right, you can you see quite a bit of different from our treasury portfolio, which had very long interest rate exposure. This one has a much more balanced and quite a bit more in the front part of the curve.

Now, mortgages are obviously exposed to another risk from interest rates. And that is if we get a large enough decrease in interest rates, we'll see prepay activity. Now, most of the market today is priced at a discount, so if we get our money back faster, that's actually a good thing.

But interest rates do impact mortgages a little bit different than some of the other asset classes.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this one covers our investment grade corporate segment. You can see in the pie chart very diversified from a sector perspective. This one on the bottom left, when you look at the cone chart, is actually pretty much on expectation. Now, also impacted by rising interest rates, but credit spreads relative to treasuries have tightened substantially. And that's a good thing for us. And so that has offset a lot of the interest rate risk and got this portfolio back looking pretty much like our CMA expectation. Again, information ratio over five years, 0.5. Very good.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: Actually, next one.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this is another portfolio that does have relatively long interest rate exposure, as shown on the bottom right there, and so is certainly sensitive to interest rates. The tracking error number in the top left is actually very low. We are pretty defensively positioned right now. Relatively neutral to the benchmark, given where valuations are at and we will certainly be -- this is front and center portfolio monitoring the Fed's success as it comes to guiding the economy and avoiding a recession.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So similar to the investment grade segment, the high yield segment very diversified by segments -- or by sectors, excuse me, has had very strong relative performance, so actually exceeding the capital market assumption. Part of that is we've seen extremely strong relative price contraction, but it also has a lot shorter interest rate duration. And so the negative you get from the rising rates is not as strong in this, but we've had really strong relative credit spread tightening.

This one, the information ratio will become more relevant over time. It's a five-year number for four of -- the first four of those five years, this portfolio was passively managed. Coming out of the 2017 Strategic Asset Allocation, the mandate was to provide the high yield beta. In the most recent strategic asset allocation, we tilted that to active management. So over time, we would expect to see that information ratio be different than zero, hopefully positive, but that number will become more and more relevant each and every year.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: Next one, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this one, bottom right, will show you the interest rate exposure, as I pointed out, is quite short compared to our other segments, and so that has benefited. Similar to the private debt being a floating rate, they all kind of hedge in different ways. But for the fixed income segments, the high yield segment is one of the shorter and cushion some of the longer duration in investment grade and U.S. treasury.

Most of this segment is now externally managed.

And looking through the holdings, the tracking error there is also quite low. In talking with the managers, they have similar concerns we have on the investment grade portfolio, given where valuations are at. So they are somewhat less aggressive than they typically might be waiting for a better date to enter.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this is our newest segment, the emerging markets sovereign segment. We've always had sovereigns, at least as long as I've been here, but they've always been investment grade. The 2021 strategic asset allocation ALM work added non-investment grade emerging markets to the portfolio. It's about 50-50 I think is the best way to think about it. Again, do not have five or ten year numbers on these, because it's a two year old portfolio.

But again, looking at the bottom left, the spread tightening that we have realized in this portfolio has offset some of the interest rate increases to yield a return kind of in line with what we were hoping out of the strategic asset allocation.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So again, top left shows the different regions of the world that we are exposed to. Very diversified. Actually, back one, please.

One more. Please. Yes, right there. So I'm sorry, I missed the top left that shows the eco -- or the global economic diversification we get from the various regions around the world. I'm trying to read my laptop with my reading glasses and still be able to see the screen.

Next, two slides forward, please.

So CalPERS STIF, this fund came out of our post-financial crisis experience, where we were using a lot of external money market funds. We couldn't control the investments they were buying. We couldn't control their liquidity exposure, but we had the ability to do it in-house. And so we went through the work with the back office to be able to handle it, and ultimately launched the CalPERS Short-Term Investment Fund, or what we call the CalPERS STIF fund.

As the bottom -- I think the thing to know is the bottom right really just shows this thing is super liquid. We have, you know, at times 40 percent. Right now, it's showing 40. Oftentimes, we have ven more than that of overnight liquidity. As you can see in the top right, and we didn't show a dollar value add on that initial graph simply because we have added value on this. It's outperformed its benchmark, but its primary goal is liquidity and capital preservation. And we think we can add value too, but that's not really why we're doing it, but it has certainly added a decent amount of value over the years.

But the main thing -- this fund is one component of our overall liquidity work with the centralized financing team. It's the most liquid portion of it, but fits into our financing work, our leverage work, and all of that. So it will become -- the liquidity work, just as we do more and more privates, is just going to become more and more paramount that we have a really good handle on our liquidity situation.

Next slide, please

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this summarizes where we were in the last year. The -- like most of the Investment Office, we've been really busy implementing the new strategic asset allocation. A lot of bonds were moving around. It puts a lot of stress on our back office, so I certainly want to acknowledge, you know, their work in settling all the trades that we do.

The mortgage segment, we have talked a little bit about the trade we had on -- a tactical trade we had on. It's largely been taken off. There's a small amount remaining. We put it on when we saw a dislocation in the Agency MBS market. We've slowly taken it off. It's added, it says 30 million on here. I think the number is probably going to come out closer to 35 million, but really good work by that team and working with our total fund portfolio management folks to put this trade on. It's been a profitable trade.

We talked a decent amount about the liquidity work. I actually think it's one of the things our office does best. It brings every piece of our organization together. Every Friday, we meet to go through this. And I'm sure Stephen will improve a lot of the things we do around here. But I -- actually, for what we're doing right now, I think our liquidity work is as good as anything we do in the Investment Office.

Technology front and center, not only at the entire Investment Office level, but certainly within fixed income looking for ways to do what we do easier and quicker.

And then we're just going to continue to look for ways to identify opportunities and add value.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this -- you know, this year I think is similar to last year. We did a lot of work with Peter Cashion Sustainable Investments Team looking at the 2030 goals, looking at ESG integration. We have been doing ESG in our mosaic for more than a decade. It's sort of business as usual. But I do think we can learn from what other folks are doing in the office. And so when Peter, you know, is able to roll -- and staff and roll out his ESG integration, I think we're expecting to learn something from it.

All of us in the Investment Office are going to be spending a lot of time on data and tech. You'll hear this same message next year, I'm guessing, because we'll still doing it. And then we're also just looking to continue our work with external managers to increase alpha potential and also knowledge transfer. Fixed income has always viewed them as a sort of a extension of staff. We see what they're doing. It raises questions on what we're doing. We have conversations and we feel it makes us stronger at the end of the day.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR PHILLIPS: This one gives some of the examples of governance sustainability. I talked a little bit already about how it's sort of business as usual in fixed income at this point. Everything that goes into our mosaic helps us determine relative value. At the end of the day, our job is to figure out if we're getting compensated for the risks we're taking. And certainly, we look at balance sheets and fundamentals, and all that, but a lot of the other, you know, sustain -- governance and sustainability work, you know, can override some of that stuff. And so the credit teams, the mortgage teams, the sovereign teams, they have known that for a long time. And it just sort of is what we do. But at the end of the day, we're trying to make sure we make the best decision on the risks out there to make sure we're getting compensated for them.

I think it's interesting, too, when I was looking at this graph -- or this slide, when you look at fixed income, we think of interest rate exposure, but really each of the teams are pretty distinct. The factors that matter to the mortgage portfolio hardly matter at all to the credit portfolio. And so they are distinct. There's not kind of one size fits all, but I think we can all learn from each other, and that's what we're hoping to learn when Peter is able to staff and roll that out is, you know, to learn from a different asset class.

And Dan has done a great job of pulling the affiliates, the global equity and globe fixed income teams together to try to learn from each other, because we do things differently. Some of the factors don't matter at all. Some matter a lot. But no need to rebuild the wheel, if we can plagiarize from one of our colleagues.

So that's what I got for today. Happy to take any questions.

CHAIR MILLER: Okay. Any -- I'm not seeing any requests to speak and I have no questions, but I appreciate the presentation. And it's -- you know, ir continues to be encouraging. You know, it helps stoke that optimism that I like to see and really appreciate all the work that the team put in and everything to get to this point.

So thank you.

So next, we'll go to Global Public Equity Annual Program Review.

CHIEF INVESTMENT OFFICER GILMORE: Thanks, Chair. I just want to make one comment on what Arnie was saying before that. He emphasized the work on liquidity. So I joined one of those early liquidity meetings, so enjoy that. I would say the funds that I was at before, there was a big focus on liquidity. So we had quite an engaged conversation.

And I would also highlight that our liquidity can be an advantage that we can use. And that's one of the things we'll be focusing on as we go forward.

But with that comment, thanks, Arnie.

And I'll Simiso to come up and --

CHAIR MILLER: Okay. And as Simiso comes up, for this item, I also want to mention, I just want to say a little thank you to some of the folks who've sent us comments, thoughts, advice on this subject. I think we received some correspondence emails and stuff from folks who want to share some thoughts with us on this. And that's appreciated as well as when people come in person. So if anyone has any comments, and they don't think they can make it to the meeting, we welcome your cards, and letters, and emails, and texts, and whatever else, so -- okay, Simiso.

(Thereupon a slide presentation).

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

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: I'll be joined today by Drew Hambly who is going to cover the sustainable investments -- sustainability governance of principles and corporate governance work that the team is doing.

There are two key takeaways I would like you to walk away with from today's presentation. The first one really is that global public equity active management has successfully outperformed the policy benchmark and added value over the long term. To increase future impact, we are continuing to increase allocation to active strategies and active risk in the portfolio, which would help with our absolute and relative returns.

The second takeaway is that active management requires patience. No investment strategy can outperform its benchmark every day, or every week, or every month, or even every year. A long investment horizon is required to actually reap the benefits from active management.

Now, if we can turn to slide 3, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: Just like Arnie, really it's important to look at why each asset class exists. And the role of global public equity is to provide capital appreciation over the long term. And again, I'll keep repeating this in terms of the long-term investment horizon, because we are in perpetuity and we invest for the long term.

The additional role really is to act as a source of liquidity for total fund cash flow needs. About 92 percent of the portfolio is managed internally, with 74 percent being passively managed. We expect both of these metrics to change as we add active strategies into the portfolio.

If we can turn to slide four, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: So this slide -- this slide really looks at portfolio positioning from a strategy -- from a strategic asset allocation perspective. As you may recall, the 2017 asset liability management process divided global public equity into two distinct segments, the cap-weighted segment and the factor-weighted segment.

The only subsequent change that has happened was the addition of the climate transition sleeve to the factor-weighted segment, which is -- was effective July 1st, 2024. The new sleeve seeks to take advantage of potential alpha opportunities arising from climate transition.

If we could move to slide five, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: So this slide really shows the portfolio positioning from an implementation perspective. And the move into more active management in global public equity. We believe that active management can and does add value over the long term. And we define long term as rolling five-year periods. At this point, I really want to emphasize that active management is a requirement to adding positive alpha but it is not a guarantee.

By being different from the benchmark, we introduce the potential to either outperform or underperform the benchmark. It is an unavoidable reality of active management that we will experience periods of underperformance. And it is incumbent upon us really to be patient and continue invested as Stephen said earlier year today in his presentation.

As shown on this slide, the global public equity active book added about 700 million of dollar value added over the last one year and over a billion of cumulative DVA over five years. Based on our fundamental belief about active management and our own demonstrated experience of delivering dollar value added over the long term, we are continuing to increase allocations to active strategies and active risk in the portfolio in order to improve future impact.

If we turn to slide six, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: This slide really provides portfolio positioning from a historical perspective. As you can see from the graph, if you go back to December 2019, when, through a total fund initiative, active risk was reduced in the portfolio to about six percent. And then in December 2022, we started putting active risk again in the portfolio. Really, the punch line here is that since we got the green light to add active risk back in the portfolio. We've deployed about 27 billion into active strategies.

Next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: This is one of my favorite slides. And I think this is the first time that we've actually included this slide in the annual program review. And here we're trying to show how staff decisions can add value. So when we talk about active management, how do we actually do add value to the portfolio?

So manager and strategy selection are really critical in terms of our ability to add value. Staff does spend a lot of time performing both qualitative and quantitative analysis in order to identify and select skilled managers that could add value in the portfolio.

From the portfolio construction perspective, really this is about building a portfolio of best set of manager as opposed to the best individual managers. This is the same concept when you think about the whole being bigger than the sum of its parts. So really putting together these skilled managers to build a portfolio that actually adds value over the long term is really important and that's one of the way that staff actually adds value.

Skilled implementation by the internal Global Public Equity implementation team. So our team does a lot of things where we don't fully replicate even the passive strategies. So we take advantage of, you know, doing things differently than what the index would be doing, or trade optimization, or trading strategies. And all that, that actually adds value to -- additional value to the portfolio.

And then securities lending, which is where we get paid to lend our shares to others for legitimate investment reasons.

If we could move on to slide eight, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: I think this slide really what it does is showing the breakdown of the total performance of the global public equity portfolio between the policy benchmark return, which is based on the Board-approved strategic asset allocation, and the staff decisions to pursue active management.

In aggregate, as can be seen, the portfolio outperformed its policy benchmark over the one-, three-, and five-year period. Even though, here we're showing one, three, and five years, even over the 10-year period, the portfolio actually outperformed its benchmark. I think the punch line here is really that the staff decisions to pursue active management have actually been adding value to the portfolio. And this is something which we'll will continue to focus on and try to do as well as we can.

Let's move on to the next slide, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR SIMISO: This slide really shows the portfolio performance from a dollar value added perspective relative to the allocation between passive and active. The main point here is that the active strategies deliver a bigger bang for the buck, given the level of allocation in these strategies. And this is something again a great example of the potential impact of increasing allocation to active strategies, and that could have on the overall DVA of the portfolio.

Slide 10, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: I won't spend too much time on this. I think you've heard a lot about market environment, both from Lauren Rosborough Watt and Arnie Phillips. And really the big takeaway from the public equity perspective is that we expect a period of increase public equity market volatility owing to geopolitical risk, including the U.S. -- the upcoming U.S. election, as well as the uncertainty about economic growth, inflation, and interest rates. We do believe though that the increased market volatilities actually presents good and rich opportunities to generate alpha from active management.

I will skip slides 11 through 18, because the slides -- those slides really get into the components -- the underlying components of the two segments. But I would jump to slide 19.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: So as can be seen from this long list, staff has really been busy over the year and accomplished a lot of things, including the implementation of the mid-cycle strategic asset allocation, the deployment of additional dollars to active strategies, and the customization of the climate transition index. We are also continuing to refine our Investment Manager process and portfolio construction capabilities in pursuit of adding value above the benchmark return.

Move to slide 20, please.

[SLIDE CHANGE]

MANAGING INVESTMENT DIRECTOR NZIMA: The three key initiatives listed here are really crucial to our ability to continue to deliver dollar value added above the benchmark over the long term. I won't go through each of these. I think Arnie talked on some of these around data and tech, the work we're doing in sustainable investments, but also the work that is happening within global public equity around enhancing our portfolio construction capabilities.

At this point, I'll hand over to Drew to cover the stewardship and corporate governance work that we're doing.

INVESTMENT DIRECTOR HAMBLY: Thank you, Simiso. If we could go to the next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: So we met two months ago at the Board off-site, so a lot of this information is not going to be terribly new. I thought we had a very great, thoughtful discussion at that Board off-site. I don't have a lot new to present, but we wanted to keep this as part of the cadence of the annual program review.

So as a reminder my team, the team I oversee, manages our stewardship program, which we mean to corporate engagement and proxy voting duties.

Next slide, please

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: And as we talked to the Board in July, my team voted nearly 10,000 meetings this year. We had over 400 engagements with companies. Those engagements represented about 65 percent of the equity in the portfolio. So while we have five or six thousand companies, we're not going to get to all of those, but we really are able to get to a good portion of where the money is invested.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: So you're familiar with our proxy voting guidelines. I wanted to highlight a couple of companies that were in the news and a couple of topics that I know are of great interest to the Board. I've just selected a few from this past proxy season. I know we've talked a lot about labor and human capital management baked into our proxy voting guidelines. We are very supportive of shareholder resolutions on things like freedom of association, highlighted by our support for the Wells Fargo freedom association proposal, and then some human capital management proposal shareholder resolutions at Chipotle. So these things have been baked into our guidelines for a long time and we're generally very supportive of these types of resolutions.

I won't spend a lot of time on Exxon and Tesla. We had good discussions around those, but they highlight, you know, our desire to keep directors accountable for the actions they take. And I -- while some of the vote results did not align with our vote, we do believe speaking up, and which we did in those two particular instances, were important from -- for the marketplace to hear our views and why we took those actions.

And then just some other companies like, you know, Boeing, for example, obviously, a lot of issues going on with that company. It's down, you know, 50 plus percent over the last few years. And we held a number of directors accountable that had been on that board for a long time, as we hope they can right the ship here at some point. But once again holding directors accountable for their actions.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: Climate Action 100. As you know, you know, Michael Cohen has stepped in as the Chair of the Steering Committee. My team has been working loosely with Michael and also Peter's team to make sure that this initiative is still providing value for the people that are part of it. And while there have been a number of defections, people choosing not to continue with the initiative, there are still more than 600 participants across the globe. And I think, you know, Michael's leadership is really driving some, what we hope will be, continued value for people who participate in that initiative.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: And just a reminder of some of the oversight things that we're working on. You know, while the Climate Action 100 focuses on about 170 companies, our Program is looking at our 350 highest emitters in the portfolio, holding directors accountable, following up with engagement on their oversight of climate and disclosures.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: And then just highlighting continued emphasis on corporate governance, things like board diversity, executive compensation, human Capital management, and climate and sustainability are just key focuses that we will continue through this next year.

Next slide, please.

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: I won't spend too much time. These -- we saw -- presented these in July, just our vote results across the portfolio on shareholder proposals in the U.S. As I mentioned last time, you'll see some, you know, slight dip in the percentages, but if you look at the overall number of proposal supported, we support quality, well-targeted proposals, and those were relatively the some same year over year.

Next slide, please

[SLIDE CHANGE]

INVESTMENT DIRECTOR HAMBLY: I did want to highlight, and we highlighted at the last meeting our support -- our votes against say on pay in the U.S. was down slightly. But as you've heard throughout the day, the equity markets were quite resilient in 2023. So in our models, when we have a really good year in equities, that will outpace the rate of pay for CEOs, we'll see slightly less against votes than we did the previous year. Remember, in 2022, we had very challenging equity markets and we were nearly 50 percent against on say-on-pay. This year, it's slightly down, but still focused on CEOs that are providing long-term value relative to peers and performance.

That concludes my remarks. I'll pass it back to Simiso for concluding comments and then any questions from the Board.

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah. Thank you, Drew. Just to close out the presentation, I want to publicly acknowledge and applaud the Global Public Equity team for the hard, but rewarding work, that they did this past year and they continue to do. I do really feel very fortunate to have a team that is so dedicated to serving those who serve California. So thank you to all members of the global public equity tea, as well as to everyone, you know, INVO, and enterprise, because we do all work together. We do work for CalPERS for the beneficiaries of the State. That really concludes our presentation.

I don't if, Stephen, you have anything to add. Otherwise we'll open up for questions.

CHAIR MILLER: Great. Thank you. And, yeah, and I'm sure we all echo the appreciation. The, you know, teamwork really has become defining aspect of kind of CalPERS culture. And this team certainly exemplifies that. So I've got President Taylor.

VICE CHAIR TAYLOR: So thank you, Simiso and Drew. I appreciate the report. And I'm not -- I'm not shocked at our sustainability report. On proxy voting, I think you guys did a great job. I know there was some really hard ones this season. On top of which, then we had the people pulling out of Climate Action 100+ and I really applaud everybody who's worked so hard to see what we can do to mitigate some of that loss. I know that Congress sent out those 130 letters, which makes it even worse. But I continue to applaud our work, and it's important work. And I think that we should continue to push, right, and make sure -- maybe these people who dropped out because of what happened with Congress and stuff, will still do the work in the background. And I'm hoping that's the case, but I also hope that we can get them back into Climate Action 100+.

So I continue to think positive thoughts on all of that. And again, thank you all very much for all the hard work on this.

CHAIR MILLER: I don't see -- oh, there we go. Now, there they all are. Okay.

VICE CHAIR TAYLOR: Oh, my goodness.

CHAIR MILLER: Here we go. We'll start with Director Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you. I'm going to keep this short. I want to say I agree a hundred percent with President Taylor. The work that we have done and the influence that we have as an organization is a direct result of the kind of effort that we have seen from our Investment Office over the course of not just the last few years, but many, many years. And I am proud of that work and thank you for it.

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

COMMITTEE MEMBER PACHECO: Yes. I also want to iterate as well the good work we've done in terms of our stewardship. I am very, very glad that the team is on top of it and so forth.

I do have a one -- two questions. The first question is with -- for Simiso regarding how the staff, you know, decides decisions to add value. I really did appreciate that slide, in terms of that, but I'm also curious, do you have -- do you have the resources in terms of the human -- the human capital in your -- in our department to make this work and make it even more scalable. If you can elaborate.

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah. Thank you for the question. We do have the resources we currently need to scale the work. And I think the organization is always open to, you know, giving us the resources, if we need more. I think the way we've, you know, thought about this is really to iterate in terms of building the capabilities and the resources that we need, but I think at this moment in time, we do. And when -- if and when we need additional resources, I'm sure Marcie and the team, you know, will make those resources available to us. But thank you for the question.

COMMITTEE MEMBER PACHECO: And just to add on that, you had mentioned that, you know, one of the concerns was the technology and so forth to build out. Is that -- is that also part of the help you out with your add -- value-add?

MANAGING INVESTMENT DIRECTOR NZIMA: That is -- yes. In short, yes. I think having the enabling technology to do the work that we need to do would actually hopefully enable us to spend more time on doing value-adding work as opposed to just getting the data together and trying to do the analysis, because I think the team does spend a lot of time trying to get data and sort of scrubbing that data and so forth. So I think when the technology improves and, you know, we have much more modernized technology, then we'll be able to spend most of our time actually in -- you know, in the investment work and scaling the value-added work that we do.

COMMITTEE MEMBER PACHECO: Fantastic. Thank you. Thank you Very much.

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

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And first of all, I want to ditto the thank you -- the thanks and -- to your -- Simiso, and Drew, and your entire team for the great work, and particularly, Simiso, when you started it says one of the takeaways is that the equities have outperformed its benchmark. So, yay. So that's good news. Keep on bringing that kind of news back.

A quick question back to slide number 10, and that deals with the managing of market volatility and risk. And I just have a -- yeah, on the current concern. And so with these concern of global growth, market volatility, and inflationary pressures, how is the Global Public Equity team adjusting its strategies to mitigate potential downside risks, particularly in light of the best case of a soft landing in a global recession as a downside scenario, any thoughts on that?

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah. Thank you for the question. I think the way we approach investing in global equity obviously is sort of a long investment horizon. And I think it was Stephen earlier on today when me mentioned, for example, geopolitical risks that, you know, some of those tend to be short-term in nature. And this is where when I mentioned the fact that when there is market volatility, actually, it presents richer alpha opportunities for active management, because if you can ride out those short-term volatile periods, then you actually are more likely to add value over the long term.

So again, looking at both the fact that from a liquidity perspective, from a long investment horizon, I think we can take advantage of any of the short-term volatility that might arise. But from a growth perspective, I think if you look at the CMAs, those are 20-year, you know, CMAs, and so forth. And I think if we stay the course, we'll continue to do well. I think for the team in particular, we really have to focus on that value-add.

The exposure that we're getting from equities, the economic growth, and I think if you think about the long term, the economy is growing over the long term. I think last year at this time, I had graph in the presentation, which showed a 30-year return on the S&P 500, which showed that, you know, over that period the S&P 500 returned 10 percent per annum. But if you actually looked at short-term periods where the S&P 500 fell, you know, 20 percent, 50 percent, 30 percent, but, you know, over the long term it actually did generate that -- you know, that long-term growth, that long-term value based on the economic growth. So I think as long as we focus on that long term and we're able to ride out the short-term volatility, we'll be fine.

COMMITTEE MEMBER PACHECO: Good to hear.

MANAGING INVESTMENT DIRECTOR NZIMA: And now that fixed income has income in it, so, you know, they can diversify some of the equity risk.

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

CHAIR MILLER: Okay. Thank you. Next, we have President Taylor.

Hang on.

VICE CHAIR TAYLOR: I'm still not on. There I am.

So I just wanted to also comment, first of all, I didn't say anything about Exxon, but I wanted to say how much work went into that. That was a lot of work from everybody including our CEO and all of the Sustainability Office, our Public Affairs Office. So I wanted to thank you all, but in that after all of that, I wonder -- I have -- I want to make sure that I first thank everybody that came and spoke today also about Exxon. And I wanted to acknowledge that we did receive letters -- a bunch of letters from folks that couldn't come. But I also had a question on that. So how are we -- and this might not be a conversation for now, so I'm going to make sure I say that. How are we making sure the next time something like this happens doesn't need to be an Exxon question, right? And we're trying to impact and we're not getting anywhere with other asset managers, how do we convince them to vote our way? Is that just a long, drawn out -- anybody have any ideas? That was one of the comments one of the folks made to us, so I wondered about that.

CHAIR MILLER: I have one idea is you don't take part in this fight by divesting, and running away, and putting your head in the sand.

VICE CHAIR TAYLOR: True.

CHAIR MILLER: And that's where we're leading and the work of this team and the other teams is a big part of that. And as much as I appreciate, because I'm -- I've been an environmental scientist and I've dedicated my entire adult life and career to trying to protect public health and the environment, but you can't do that with unrealistic approaches that are -- the emotion is there, the heartfelt need to express themselves there. But I think we're doing real work that helps make a difference in what's going to be a long-term fight, a long-term cultural change. And, you know, this team is a big part of it. So back to you, Simiso.

VICE CHAIR TAYLOR: Who wants to make comment son that now.

INVESTMENT DIRECTOR HAMBLY: No. Just really quick. So this summer, we reached out to more than a dozen managers. Now, they don't vote for us. We vote ourselves.

VICE CHAIR TAYLOR: Right.

INVESTMENT DIRECTOR HAMBLY: To have conversations to reiterate our program and the things work -- they have many, many clients, and we're not trying to tell them how to manage that. But just reemphasize the program we have, the reason we're voting the way we're voting, and we're having those discussions now with a dozen managers that manage money for us across our entire program. And, you know, hopefully having more of those conversations will, you know, help give them, you know, the ammunition they need to say, hey, we have many clients out there, but here are some ones that are really speaking up about their program and how they can hopefully support us in the future.

VICE CHAIR TAYLOR: Thank you. I appreciate that answer.

CHAIR MILLER: Okay. I'm not seeing any -- oh, I do. Here, I have Director Middleton.

COMMITTEE MEMBER MIDDLETON: Yeah. Let me just pick up for a moment on the theme that Chair Miller and President Taylor said. I think we have made it clear, as an organization, that we believe the future of energy production is going to be tremendously greater coming from renewable sources. We've made a financial investment in doing that. And we've done so for the reasons that we believe that's where profitability is going to be in the future, as well as that it does address a fundamental concern that we have as an organization regarding climate change, and the impact that it can have on the global economy and on our own economy.

I wish we could take and snap our fingers and have that transition take place overnight. I don't have that kind of power and I don't know anyone else who does. It's going to take many years to do so. I don't believe this is the time to let up on the pressure that we have to make those investments and to create the alternatives to fossil fuel. But the idea that we can turn off the lights and just simply walk away is not a realistic option.

So for the next many years to come, whether we like it or not, fossil fuels are a part of the energy structure that we have in this country. And I know few organizations that are investing more heavily than this organization in creating that alternative. And I'm very proud to be a part of that.

CHAIR MILLER: All right. Do we want to clap? I'll clap for that.

(Applause).

CHAIR MILLER: Okay. I'm not seeing any other requests to speak from the Board, so again thanks so --

there we go.

ALI KAZEMI: Well, I just wanted to add, if the Board would like comments from Wilshire just in regard to our opinion letter. I can comment both on the Global Equity Program and the Global Fixed Income Program, if that's pleases the Board.

CHAIR MILLER: Absolutely.

ALI KAZEMI: And really I think more positive information to share. Maybe starting with the Global Equity team and Simiso. And the group already kind of went over some of the performance metrics and dynamics of portfolio construction. As a reminder, our scoring model is highly qualitative in nature with some quantitative aspects woven in. Steve already alluded to the firm score that is part of that organization component. There's another piece, which is the team.

And I want to talk a little bit about the team, because resources were brought up, and specifically as it pertains to Simiso's team. That team has grown to 26 FTEs currently with three open positions. In past reviews, we've come to you and talked about turnover. What's been very nice is over the last two years there's been no turnover within that team. And I think that trend is something to point out and highlight, because I think it speaks to the quality of the organization and the group that Simiso leads.

A couple highlights as part of that, there's -- there are plenty examples in the paper, but the addition of Drew to the team and the work that he's done is something that we wanted to point out, because I think that's been very additive and obviously well received.

From an implementation standpoint, that team is supported by 10 employees and they've done a tremendous job over the last year successfully managing portfolio construction and trading initiatives to the tune of about $32 billion over the last year. So that's an incredible amount of work. So when we kind of fold everything into that scoring model using those subcomponents, the score for the GE program remains at a very solid third decile out of 10, which is, you know, acute -- akin to a B rating. But again, that's a very, very strong score. It does factor in the firm score, which days weigh that down somewhat. So to the degree that the stability maintains and we increase the firm score, that will increase the overall programs as well. So we think that the dedicated growing team, the portfolio adjustments, and moving to more active management that this program is, you know, well positioned to continue to deliver economic growth and value-add relative to its targets.

If I may, on the fixed income side, again we use the same model to score that program. From a team standpoint, you know, it's managed in a very effective and risk conscious manner. So I wanted to point that out. We have noted that in the past reviews, that the size of the team remains a risk factor to ensuring that continuity. And so that continues to be an area of focus. But as Arnie has updated throughout the year, when we discuss these things, they have seen promise and efforts to expand the team, improve the applicant quality, have enhanced the program's prospect.

So there are still some challenges from a recruiting standpoint, but the trend there continues to be a positive one, similar to what we've seen for global equity. The overall score for the GFI program, similar to GE, is third decile. So that same B rating, which again is very solid. We think it continues to align well with its strategic objectives of providing income stability and diversification, while maintaining a disciplined and dynamic investment approach.

So those are our comments oh both programs. I think good news across the Board, but happy to take any questions.

CHAIR MILLER: Not seeing any questions.

So, thank you for that. And we'll move on to the Investment Office Strategic Initiatives, Item 6e.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair.

(Thereupon a slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: So Michael and I will go through progress on the initiatives over the last year and talk a little bit about the path ahead. And I'll hand it over to Michael.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Thanks, Stephen. If we can go to the next slide.

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: You'll recall that when Nicole got here, we had nine strategic objectives. And so the purpose of today's presentation is really to walk you through the nine how we are now at four. And I think one of the key things we learned is that nine was a little bit overwhelming that at the time, we were trying to involve one person, one initiative, but we're finding that it works much better to have a smaller number of initiatives with a tag team of individuals who can all work together to get results.

The one thing that has been constant is the graphic you see on this slide, the four Ps in the Investment Office. This has really been an excellent way to synthesize what we're doing, that we're really about the people, the process, the portfolio, ultimately leading to performance. And that's -- we all know that's why the Investment Office is here to generate performance, improve the funded ratio of the pension fund and generate excess value as you've heard a bit about today. So with that, if we could go to the next slide.

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: This is an exact duplicate of the June 2023 presentation that you last heard, sort of a recap of where we were as an Investment Office. And you see there, there were nine here really centered around the themes of innovation, resiliency. Those themes obviously still resonate with the Investment Office. The presentations earlier today have touched on all of these.

And so if we can go to the next slide.

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: This is really just the exact same slide with different coloring to show those five initiatives that have really transformed into standard operating procedure into -- integrated into the Investment Office. And then the four blue ones are the ones that we're continuing and we have had a chance to talk through these four with Stephen when he arrived. And you've already heard him sort of put his emphasis on them.

And so with that, if we go to the next slide --

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN:

-- this is really just a quick recap of the five that have been integrated into the Investment Office operations. And while we haven't been in front of you providing this type of comprehensive overview of our strategic initiatives recently, you will see that you've been informed in various ways on the five that are now sort of integrated into our operations. So first up, the private market innovation platform, this is really what led to the billion dollar investment in Mosaic. You just received a briefing and an update on that at the July off-site.

Next, the private debt strategies. Obviously, you got Jean's final program review in June. This is the asset class that, as Stephen mentioned, performed 17 percent in its first full year.

Third, the business process optimization, not necessarily the sexiest topic, but it is something that really has helped the Investment Office move more efficiently and more -- in a more agile fashion. It led to information barriers, which you approved just over a year ago, as well as the strategic asset allocation.

Next, improving stakeholder engagement. We did create an entire unit within the Investment Office, Investment Relations, that whose job it is to really engage with our stakeholders. As you know, we borrowed Kelly Fox from the rest of the enterprise to come over and really lead that unit. That's now fully up and operational. One of the key aspects of this group is the stakeholder engagement process has been much more formalized since the team's creation. So while we've always engaged with stakeholders as CalPERS, it's now much more formalized for the Investment Office that when we hear public comment or when we have a big issue coming before the Board that we have a process to engage with our stakeholders and track those engagements and how we're reacting to the new information that we get from our stakeholders.

And then finally, Active Risk Innovation, this is a perfect lead in from Simiso's presentation. You're hearing about the active risk throughout all of the annual program reviews and it's really sort of part of the aspect of the office that we had slowed down on in recent years and now are rebuilding our approach to active risk. So if that, if we can go to the next slide.

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: This now captures the four initiatives that we have going forward for this current fiscal year. First off is people and our talent and culture work. Second in process, data, and technology, and then in portfolio, portfolio resilience. The ALM process as you know is coming up once again in 2025. And sustainable investments. And all of those four initiatives are really designed to drive our performance to a higher level.

And so we have the ability to measure that performance in dollar value added by the Investment Office and the improved funding ratio of the pension fund.

So let me go into each one of these in more detail on the next few slides

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: So first up is talent and culture. You certainly have heard over the last number of meetings kind of some of our challenges with our staffing. We have been able to reduce our vacancy rate by 19 percent over the last year. Part of that is also that we were -- in the comments that were just made we -- the enterprise has provided the Investment Office quite a large influx of new positions, so that obviously drove up our vacancy rate. We've been filling that. And the good news is we've been filling about half of those new positions with internal staff. So our team is getting much deserved promotions, but that obviously creates a new vacancy as they get promoted. So that's been some of the reason that our vacancy rate continues to be higher than we would like.

Next, we've refreshed our Investment Office mission and values just to focus on the things we want to focus on, refocusing on performance and, you know, particularly from a risk lens as well as the sustainability lens that cuts across all of our investment decisions.

Next, you heard Stephen talk about the Culture Club in his opening comments. There are quite a few of them in the audience. So let me just have them stand up for a minute and so we can recognize them. You see it cuts across the Investment Office. There's about 30 Culture Club members across the Investment Office. And really they have a huge task in front of them, which is to rebuild the Investment Office culture that, like every employer in every workplace, there's certainly work to be done in a post-pandemic environment. But even more so than that, the Investment Office is given the challenge of sort of bringing that agility and innovation into the Investment Office culture. And we think that will yield great dividends moving forward.

Next up, an accomplishment to date, in addition I'd like to have our Stanford fellows stand up just for a minute. You've got three here. There are four total. Unfortunately, Tian is under the weather but Thoa, Sami, and Adil are here and are going to be with us for a year. You'll recall this is a partnership with Ashby Monk and Stanford University to really put a focus on a pipeline for this office as well as pension plans across the country, and across the world more generally. But we think this is going to be a great opportunity for the Investment Office to continue to build this pipeline, which brings me to the next item, the Associate program.

This is really the Investment Office Internship Program, which we've redesigned and put a renewed emphasis on. It has historically been a great pipeline for the Investment Office, everyone from Simiso, Sarah Corr have been interns with us at various times. And in this past year, we hired -- past couple of years, we've hired three of our interns into our Investment Officer classes. So it's creating pipeline for us. That, combined with Stanford, we think will continue to give us the diverse and talented workforce that we need going forward.

And then finally on what we've accomplished to date as well, we've really formalized the mentoring program that's been in various forms within the Investment Office over the last number of years. Tip Harder in our Talent and Culture team has really done amazing work in bringing a spirit to mentoring that is absolutely critical to bringing folks along in their professional journeys.

That being said, we do have quite a bit of more work to do. The aforementioned Culture Club, they have designed five experiments, which I think are worth just highlighting quickly so you know what's on tap: first, a welcome mat sort of formalizing our on -- and improving our onboarding program; ideas at work to take suggestions from all team members; education and development, so that all of our team members have opportunities to further their careers; recognition always appropriate when we take a moment to recognize the hard work that's happening; and finally, know your Investment Office, just giving an opportunity for folks to understand what type of work is happening outside of their particular unit. So a chance for people to sit down at lunchtime, learn more about what's their colleagues are working on.

And then finally, before I move on, measures of success. This is -- you'll see this on each of our initiative slides. We think it's really important to measure what we're working on. These are strategic initiatives for a purpose that there's a strategy involved in improving the performance of the investment office and we really need to measure that to know how we're progressing. And here, as you well know, we have an annual employee engagement survey. And so it provides a real time update on how our team is feeling about working in the Investment Office.

So with that, let's move to data and technology.

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: You've heard a fair bit about this already. You'll hear even more tomorrow in the Finance and Admin Committee. Rob Paterson from our team will lead that discussion. For those of you who won't be able to be here, it's worth noting we have been developing a strategic plan for our data and technology over the last couple of years and we're ready to sort of present that to you and ask for your feedback. And then in November we'll come and ask for funding to put it into motion.

And again, measuring success there, it's building a better portfolio, it's reducing operational risks, and it's gaining efficiency. So very targeted to measuring the improvement, so that we don't just make an investment in technology. We know that it's generating the things that we expect it to generate.

To the next slide --

[SLIDE CHANGE --

CHIEF OPERATING INVESTMENT OFFICER COHEN: -- on portfolio resilience. Here, you've had a presentation on risk budgeting. The team continues to advance that thinking and integrating it into our investment decisions. You've also just seen the work of the mid-cycle ALM review. Obviously, that wrapped up this morning with the long-term care.

Continued work. You'll be hearing a lot more about ALM pretty much at every meeting going forward as we enter the full cycle review for 2025. And then as I mentioned, we're moving towards implementing the risk budgeting into our decision-making. You'll have an opportunity at our next Investment Committee in November to hear from Sterling and his team on total fund portfolio management, so they'll be able to tell you more about what they're thinking about as -- and what they've been accomplishing.

And then finally, the last initiative to highlight for this year is sustainable investments.

[SLIDE CHANGE]

CHIEF OPERATING INVESTMENT OFFICER COHEN: This is the one you probably are most familiar with. Just about every meeting we've been highlighting the fine work that Peter Cashion and his team have been doing. I won't spend time, but obviously, the key things we have are Sustainable Investments 2030 plan. And again, in November, that's when Peter will be back. You'll recall from last November, he does have a very concrete scorecard on how we measure the SI 2030 plan's success. So that one we have a well established success metric.

And so with that, that was a very rapid fire review of the four initiatives, but let me turn it back to Stephen.

CHIEF INVESTMENT OFFICER GILMORE: Thanks very much Michael. I want to go back a few slides just to reemphasize that. You know, the strategic initiatives, people, process, portfolio get them all right, should lead to better performance. Now, Marcie and I have been talking about my own personal key performance indicators. And no surprise, but people, process, portfolio drive them. So very much focused on talent development, education within the team. And that also involves thinking about succession development just making sure we've got that capable team going forward.

Date and technology, you've heard from Michael and you've also heard from actually me a little bit earlier talking about the importance of that and you'll hear again tomorrow. Essential, we have spent relatively little comparable to some of our peers in this year. But ultimately to see effectively what's in the portfolio to be able to do the analysis, like Simiso was talking about, we need to invest more. And it can mean, we do things that we can't do right now. It can mean we do it more efficiently. It can mean we, you know, innovate, and also it can reduce risk.

And just to emphasize the importance of that, both Marcie and I are co-sponsors on our investment data and technology initiative. We've both had reasonably extensive experience in this area. And it is an area that is sometimes quite challenging, because you tend to have cost overruns, things expand, but from the perspective that Marcie and I have, the more we can take things off the shelf, the less customization, the more user focus, the better. But again, that's one of the key areas of attention for me.

And the third one relates to the portfolio construction resilience. You heard Michael mention asset liability management. It is going to be probably my biggest area of work over the next 18 months or so. And we've already, you know, kicked off the work. We had a fairly informal very interactive session with the actuaries, a month or so ago and we had a follow-up session, which was lead by INVO a few weeks later. And we'll have more of those sessions. So we both get a better understanding of where we're coming from, because ultimately we have to design a portfolio that is fit for the liabilities, with the aim of trying to reduce that unfunded gap as we go forward.

And one of the things we can do is really play to our strengths. And here I've highlighted four different things that I think are strengths that we have. Size is one. Now, that can go both ways, because in some cases, we're so large that it's quite hard to find scalable investments. And you heard that in the context of venture capital. There's a limit to how much we can get invested. But from the other side of it, of course, is that size gives us influence and clout. And that clout can happen when we engage, when we negotiate, people want us as investors. And there is quite a strong association between size and cost. The larger you are, the better you can negotiate. Also, you can internalize, and that can reduce costs. So that's one thing to focus on.

Long horizon. You've heard a few people talk about long horizon. Simiso, in particular, was talking about that. We should be able to look through the near term up and downs. If we can, that can also be an advantage for us.

I mentioned brand. People know CalPERS. We knock on the door, people will open the door. They'll take our call. We can have influence through that.

Internal knowledge is a big one. We touch so many different parts of the economy, so many different parts of the market. We should be able to collect that information and use it better to help us invest. Now, the technology investment is part of that. But also internally, we have lots of great people. And sometimes we're a bit too siloed. So some of the initiatives you see like the Culture Club, you know, knowing your fellow investor, that's part of it. So it's about that collaboration and taking the knowledge we have, taking the skills we have and using those to achieve better portfolio performance.

And with that, I'll turn it over to think questions.

CHAIR MILLER: Okay. Jose Luis Pacheco. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yeah. Thank you. Thank you, Chairman Miller. First of all, thank you very much, Mr. Gilmore, and Mr. Cohen for your presentations. They were very, very insightful. I do want to go back to the talent and culture, because I also believe that is like the key to making sure to things. And I wanted to elaborate more on the enhancement on the Investment Associate Program, and then also that last component in your -- in your chart where you said internal knowledge. In terms of refinement, do you feel like education, that additional education for the -- for the -- for the

Investment staff in terms of like getting additional certifications in the investment world would help to increase that, because we -- we're moving ourselves into such incredibly complicated asset classes. And I just think it's going to get more and more as the years go. So if you can elaborate more on that.

CHIEF INVESTMENT OFFICER GILMORE: I think we could spend a lot of time talking about this. It's not necessarily about that formal qualification or education. Yes, we have requirements when people come in, but really you want to have a team that has a breadth of skills, and a breadth of experience, and a breadth of perspective, because we have complex problems to solve, so you need to have the team have those attributes.

What I envisage is that we'll be thinking about the skills and attributes that we need within the team, thinking about those gaps, and then thinking about how best to fill them. It may be that we fill that gap through, you know, external training. But a lot of it will be on-the-job training, identifying the areas that we need to address and work together. But partly, it's also down to the aspirations of the team members and what they're most interested in doing. So it's a combination of those things. So rather than focusing just on formal qualifications, it's really the capabilities that we have within the team.

I would also say that typically, you know, being an investment orientated organization or certainly the investment team who are investment orientated, there's usually a focus on finance, and economics, and so on. But that's not enough. We need to go beyond that. So I always think that if you have someone who has a, you know, background in finance, they do additional finance studies, is that really broughting out the set of perspectives we have within the team. I'm not so sure. So we need to think about it holistically. But I'll pass over to Michael who will have some comments on the Investment Associate Program.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Sure So the Investment Associate Program has been around for a number of years obviously. Sarah and Simiso have graduated well beyond an internship level program, but it's been much more kind of -- it's been there, but it hasn't been sort of integrated fully. And part of that is we now have a dedicated team member in charge of organizing the program. I think, you know, speaking for my own internship experiences, obviously you need someone to sort of show you the ropes, introduce you to individuals, give you challenging work. And so I think it just has this entire talent and culture initiative has given us a chance to step back and think about, okay, where are the opportunities to more formalize, the things we all know are necessary to build a strong pipeline of the diverse types of thinkers that Stephen is referencing.

So with that, I should also take a moment to just thank the rest of the organization that -- the four initiatives really do require effort. President Taylor mentioned the Public Affairs on the sustainable investments just being a critical piece. Obviously, Human Resources is a critical component in our talent and culture initiative. The same with our IT folks on the dale and technology. And then finally, on the ALM, it's really a collaborative effort with the Actuarial Office and the Financial Office.

So all of these initiatives probably not intentionally, but they will cut across the entire CalPERS organization, and, you know, thanks in advance, sort of my reference to recognition, that I know we're going to call on them for help. And I thank them in advance for providing that help.

COMMITTEE MEMBER PACHECO: I think, Mr. Cohen, you're right on -- you're right on target regarding that. I think it's -- it is going to be a collaborative, holistic approach, and I am looking forward to seeing this, you know, run -- you know, come out of the system.

Thank you. Thank you very much.

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

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr. Chair. And I have a question. But before I get to the question, I wanted to, on behalf of the Treasurer, congratulate the team. It takes a team from Madam CEO and the rest of the team for your initiative accomplishments. Those are really important accomplishment, as has been said.

I want to just quickly -- the mosaic one, you know, the one billion engagement, or the one million -- billion resources and emerging and diverse management commitment we reached that. I hope we're thinking about adding some more resources and increase that program.

And another quick comment on the improvement, the stakeholder engagement. I want to share with you that our office constantly talks to stakeholders and we received nothing but positive feedback on whatever new system or whatever enhancement you've done. So I want to pass that on to the team.

With that said, a quick comment on talent and culture, at the risk of getting to the weeds. But first of all, to the four engineers from Stanford, I hope when you finish, you stick to investment. They tell me it's a lot more fun than engineering.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: To the enhancement on the Investment Associate Program, Sarah and Simiso, you know you are the ambassador. I'm not sure what exactly you're doing to mentoring others, but I hope you have a little, you know, sideshow going and try to continue the tradition.

And finally, to the Culture Club, which again -- sorry, I may be going a little bit in the seed. I'm not really sewer exactly what all you do, but it's exciting to see the 30 of you to stand up. I's like, at some point, understand more about your experiment and get some more details. It sounds really fun. Too bad that I cannot join.

(Laughter).

ACTING COMMITTEE MEMBER RUFFINO: And finally, to my question real quick, with respect to evaluating existing strategies, is there any specific measure that are in place to evaluate the effectiveness of current -- of current strategies that they're aimed at driving alpha? And perhaps you can provide an example of any adjustment that needed to be made to underperforming strategies, if any. It doesn't sound like, but maybe you can give us your thoughts on that.

Thank you.

CHIEF OPERATING INVESTMENT OFFICER COHEN: Sure. So as you saw in the slides, we do think measuring the strategic initiatives is critically important, because if we're not measuring, we have no idea if we're improving or not. And so I think you'll see steady progress. You know, when Peter comes in November, that's probably our fullest scorecard of an initiative that we have. As well as the employee engagement survey, that's sort of an annual way that we can get a check on how our team is feeling and we sort of can see the fruits of our labor that when we take the time to ask for feedback and we react to that feedback, you really do see the scores change. So, you know, that's something, again, that we're always sort of fine-tuning based on the reaction of our team.

ACTING COMMITTEE MEMBER RUFFINO: Great. I hope you're -- we hear progress reports good and bad, and definitely what works and what can we improve.

Thank you, Mr. Chair.

CHAIR MILLER: Thank you.

I'm not seeing any other Board members wanting to speak. And I'll just -- again, thanks to everyone back there on the teams and everything that helped with this. The things that really kind of jump out to me that really are encouraging is focusing -- I mean, I've been doing strategic planning oriented stuff for many, many decades with all kinds of organizations. And the number one kind of stumbling block that is most common, whether they're small or huge, whether they're well staffed, is taking on too many things at one time as overarching strategic initiatives and struggling. And to see something that's this well thought out, well focused, it's not a surprise that we've been getting national recognition for our strategic planning approaches, and not just the approach, but the deployment, the implementation. And this is -- you know, it's very encouraging from that standpoint. And the choices are like, oh, my, this is all like right in our wheelhouse. And it's very encouraging.

And I'll kind of leave it at that. But I'm really looking forward to being able to engage a little more in some -- learning more as things go along with the implementation and maybe getting a little more involved in some of them. So, yeah, so thank you for that.

And with that, I think, unless there's anything else, I think that brings us to summary of Committee direction.

CHIEF OPERATING INVESTMENT OFFICER COHEN: I did not record any Committee direction

CHAIR MILLER: No, I did not think so.

And we do have at least one more public comment. I think we have someone on the phone for 6g. Do we still have our caller after all this time?

STAFF SERVICES MANAGER I FORRER: Yes, Mr. Chairman. We have Michael Mark from the Sheet Metal Workers, Local 104.

CHAIR MILLER: Great.

STAFF SERVICES MANAGER I FORRER: Go ahead, Mr. Mark.

MICHAEL MARK: Hello. Good afternoon, CalPERS Investment Committee members. My name is Michael Mark. And I'm the Planning and Development Director for SMART Sheet Metal Workers Local 104, Northern California, representing over 10,000 working families. I appreciate your time to provide comments on the Responsible Contractor Policy update process. I know it's not agendized today, but I did see your draft agenda that was approved for November and was hoping it would be on there, but I do not see that as well.

If you remember, we attended the first and second readings of the RCP policy at your -- at the last Investment Committee meeting. During that meeting, current apprentice readiness program graduates and hopeful future apprentices told their stories of hope and change. They stressed the need that CalPERS has the ability to provide much needed opportunities for individuals like themselves to transition from an apprentice readiness program to a full five-year earn-as-you-learn apprenticeship program.

That along with the representatives from Helmets to Hardhats spoke on the impact CalPERS construction projects can have for veterans. But to create these opportunities, it would require CalPERS to make changes to their RCP policy and have a requirement for prevailing wages, and additional labor standards.

The minutes that were approved today do not reflect, but the Committee members from those two meetings did have conversations regarding construction prevailing wages requirements on the dais and opportunities that can be created.

Also, SMART Local 104 would be happy to answer any questions or input the Investment Committee Chair and Vice Chair has when developing the third reading of the RCP or a subcommittee is actually formed.

In the end, our multiple letters that have been sent to the Board explains our recommendations that would benefit the local construction workforce and create more opportunities for apprentices. I know we appreciate the comments of Board members at the last meeting who were in favor of additional Labor standard within the RCP, which will provide community members and participants who live in California the ability to work locally. If staff has any questions on the information we provided, please don't hesitate to reach out. We look forward to any continued dialogue to uplift your Responsible Contracting Policy.

Again, thank you for your time. Michael Mark, Sheet Metal Workers Local 104.

CHAIR MILLER: Okay. Thank you, Mr. Marks. And thank you for your patience. We really appreciate when people make the effort to come and communicate with us, and sometimes it takes a little waiting around, but we appreciate it.

Okay. I think with that --

VICE CHAIR TAYLOR: We have one more.

Do we have -- oh, we have one more patient waiting caller. Okay. Well, welcome aboard, caller.

STAFF SERVICES MANAGER I FORRER: Yes, Mr. Chair. We have Michael West.

Go ahead, Mr. West.

MICHAEL WEST: Thank you, Chair and Investment Committee members. I'm here today on behalf of the State Building and Construction Trades Council of California regarding your Committee's ongoing discussions around the Responsible Contractor Policy. We appreciate the time several of you have spent with us along with CalPERS staff. We understand that the RCP is not on the agenda for today, and it looks like not on the draft agenda for the November meeting either. We understand that there is a lot to discuss and we look forward to engaging further with the ad hoc committee that was created at your last Board meeting to really dig into this subject.

As stakeholders in the CalPERS RCP process, we are grateful to have been able to share our views on the administration of the RCP and its applicability to different asset classes. There are several practical things that CalPERS can do to mitigate the risks associated with contractors not complying with the RCP and with drawn out labor disputes at investment properties.

The following recommendations will ensure that the RCP does what was intended, 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 continue to urge the Board to adopt the following recommendations: One, CalPERS should adopt labor standards for construction, rehabilitation, and construction maintenance projects located in California;

two, CalPERS should give formal hiring preferences to contractors that are compliant with the requirements of the RCP; three, CalPERS should apply the RCP provisions to commingled funds and other investments where CalPERS does not have a controlling interest; four, CalPERS should ensure that debarred contractors are prohibited from consideration for CalPERS-owned projects; five, CalPERS should improve its public notification process for RCP projects; and finally six, CalPERS should have a designated full-time employee assigned as the labor coordinator to administer the RCP.

I appreciate the opportunity to speak to you today on this issue. Thank you. Michael West on behalf of the State Building and Construction Trades Council of California.

CHAIR MILLER: Thank you, Mr. West.

Do we have any other commenters on the phone?

BOARD CLERK ANDERSON: (Shakes head).

CHAIR MILLER: Okay. Thank you.

Okay. Well, at this point, absent any objection, we'll close this -- adjourn this meeting and then we will return for closed session in, what, 15 minutes. Ten minutes.

Okay. Thank you all.

We're adjourned.

(Off record: 3:33 p.m.)

(Thereupon the meeting recess into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 5:56 p.m.)

CHAIR MILLER: We've adjourned our closed session. We are -- we now reconvene in open session. And unless I hear an objection, I will adjourn. So we're now adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 5:56 p.m.)

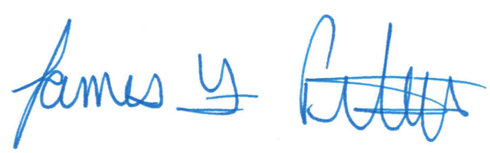
CERTIFICATE OF REPORTER

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 22nd day of September, 2024.



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