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 18, 2023

9:01 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Theresa Taylor, Vice Chairperson

Malia Cohen, represented by Regina Evans

Fiona Ma, also represented by Patrick Henning

Lisa Middleton

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Yvonne Walker

Mullissa Willette

Gail Willis, Phd(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Interim Chief Operating Investment Officer

Matt Jacobs, General Counsel

Nicole Musicco, Chief Investment Officer

Dan Bienvenue, Deputy Chief Investment Officer

Daniel Booth, Deputy Chief Investment Officer

Peter Cashion, Managing Investment Director

Simiso Nzima, Managing Investment Director

APPEARANCES CONTINUED

STAFF:

Anton Orlich, Managing Investment Director

Arnie Phillips, Managing Investment Director

Lauren Rosborough Watt, Investment Director

Tamara Sells, Associate Investment Manager

ALSO PRESENT:

Maria Blane

Sal Calleros

Ramona Cramer, Service Employees International Union, Local 1000

William Michael Cunningham(Remote)

Valentina Dabos

Tammy Dhanota, Service Employees International Union, Local 521

Jennifer Diaz de Monsterosa, United Food and Commercial Workers

Patricia Gutierrez, United Food and Commercial Workers

Steve Hartt, Meketa Investment Group

J.J. Jelincic(Remote)

Michael Mark, Smart Sheet Metal Workers, Local 104

Steve McCourt, Meketa Investment Group

Susan Minato, Unite Here Local II

Gretchen Newsom, International Brotherhood of Electrical Workers North District

APPEARANCES CONTINUED

ALSO PRESENT:

Jennifer O'Dell, Laborers International Union of North America

Brian O'Neil, Service Employees International Union, Local 521

Forest Peterson, Service Employees International Union, Local 521

Jose Preciado, Unite Here Local II

Michael Ring, Service Employees International Union

Nicole Samii(Remote), United for Respect

Pablo Sandoval, Service Employees International Union, Local 521

Sarah Theiss(Remote), Fossil Free California

Tom Toth, Wilshire Advisors

Amy Valdez, Service Employees International Union, Local 1000

Jeane Wong, Writers Guild of America

Habibulhaq Qazizada, Unite Here Local II

INDEX

		PAGE
1.	Call to Order and Roll Call	1
2.	Executive Report - Chief Investment Officer Briefing — Nicole Musicco	2
3.	Action Consent Items — Nicole Musicco	10
	a. Approval of the September 18, 2023, Investment Committee Timed Agenda	
	b. Approval of the June 20, 2023, Investment Committee Open Session Meeting Minutes	
4.	Information Consent Items — Nicole Musicco	10
	a. Annual Calendar Review	
	b. Draft Agenda for the November 13, 2023, Investment Committee Meeting	
	c. Quarterly Update - Affiliates Performance and Risk	
	d. Quarterly Update - Investment Controls	
	e. Disclosure of Placement Agent Fees and Material Violations	
5.	Information Agenda Items	
	a. Revisions to the Total Fund Policy: Governance and Sustainability Principles - First Reading — Peter Cashion, Tamara Sells	11
	b. CalPERS Trust Level Review — Nicole Musicco	80
	c. CalPERS Trust Level Review Consultant Report — Tom Toth, Wilshire Advisors; Steve McCourt, Meketa Investment Group	114
	d. Global Fixed Income Annual Program Review — Arnie Phillips	134
	e. Global Public Equity Annual Program Review — Simiso Nzima	161
	f. Summary of Committee Direction — Nicole Musicco	192
	g. Public Comment	192
6.	Adjournment	196
Reporter's Certificate		197

PROCEEDINGS

CHAIRPERSON MILLER: Good morning, everybody. I would like to call the meeting of the Investment Committee to order.

And the first order of business is the roll call.

BOARD CLERK TRAN: David Miller?

CHAIRPERSON MILLER: Here.

BOARD CLERK TRAN: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

BOARD CLERK TRAN: Controller Malia Cohen?

Patrick Henning for Fiona Ma?

ACTING COMMITTEE MEMBER HENNING: Here.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK TRAN: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK TRAN: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK TRAN: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Here.

BOARD CLERK TRAN: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Here.

BOARD CLERK TRAN: Dr. Gail Willis?

VICE CHAIRPERSON TAYLOR: Is he on yet?

Okay. We have to guess right now?

And let's note that Patrick Henning is here for Fiona Ma.

CHAIRPERSON MILLER: Yeah. Good. Okay.

Item 2, our executive report from the Chief Investment Officer Nicole Musicco.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you.

Good morning, Mr. Chairman and Investment Committee members.

As you know, we do have a full agenda today that we are looking very forward to later today. But before we begin, I would like to speak to the difficult decision that I had to make last week to tender my resignation effective at the end of the month. Those are not easy words to say. So please bear with me today.

The position in trust that's been placed to me means so much. And I care deeply about the work we do, and about serving those who serve California. But right now, my family needs me back in Toronto. And as difficult and awkward and far from ideal that is for all of us, this is what I need to do.

It has been an honor and a privilege to work with the talented team of investors that you see in this room today. Our investment team has delivered on every ambitious goal that we've set out to do. There will always be a small minority that fights change. But the vast majority of this team embraced change from the start in our mission to create the kind of culture that CalPERS truly needs in order to be best in class and deliver its promise to its members.

Thank you so much to our team, my team for welcoming the Canadian with the big ideas. You really did exceed my expectations on what we could accomplish together even in a short period of time. In just a year and a half, this team has excelled at creating a one-billion-dollar platform for diverse and emerging managers. This has raised awareness who other allocators, and has truly been a catalyst for change. We've made major strides in accelerating our private market investments. And we've laid a solid foundation for building more innovation into our investment strategies.

We built greater resiliency into our programs by improving our liquidity and risk management frameworks; and we launched our sustainable investment strategy to invest and risk mitigate through all the lenses of environmental, social and diversity issues.

But what makes me equally grateful and proud is that CalPERS is the kind of organization that sees a human side of its team members and ensures everyone feels supported when it comes to balancing the many needs in our lives no matter how inconvenient for our organization.

Thank you, Marcie, for leading with compassion and setting the standard for other leaders when it comes to being there for your team in difficult times. Even braced a family-first approach and supported the need for space and privacy. You're an incredible mentor to many, and I'll forever be grateful for the compassion you and my team have shown.

When I became CIO, I was prepared for it to be the kind of job where success depends on giving everything that you've got and then some. Which is why I had to make the unfortunate decision to resign. No one could be appropriately served in this role by only having a piece of my attention.

Thank you, Dan, for stepping in as interim CIO. You are truly a great culture carrier. And I know this team will continue to do the hard work and service to our two million members and families.

It's been a great honor and a great privilege to serve in this role and I will be absolutely cheering for all of your success in the years to come.

Thank you, Mr. Chairman.

CHAIRPERSON MILLER: And thank you. And we have a few board members who want to speak, and I will kick it off. I just want to say thank you for your time here and your tenure. The progress has -- it's frankly been amazing and the challenges of making cultural change plus all the technical change plus all the just keeping all the balls in the air and keeping us, you know, moving the ball down the field and no backward steps. But what I really want to share with you and everyone is my utmost respect, because we lead by example every day, whether we're consciously leading by example or not. And the example of truly living the value and putting family first is something that I hope everyone can appreciate and respect from the top of the organization to the bottom. You know, family is family and there's nothing else when it comes to making a decision like that a difficult decision, and, you know, you have -- certainly have my respect and support and best wishes going forward.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you so much.

CHAIRPERSON MILLER: Next we have Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Thank you, Mr. Mil -- there you go. Thank you, Mr. Miller.

CHAIRPERSON MILLER: That is -- oh. Put everybody up there.

VICE CHAIRPERSON TAYLOR: Won't you miss these microphones things, right.

So, Nicole, I just want to thank you so very, very much. We were honored to have you here. Your dedication, your creativity. You and I had lunch and we talked about all these great ideas that you've -- many have started to be implemented or have been implemented. So I just want to thank you for your hard work in this role, and recognize as our second female CIO just the -- you know, the hard work and the creativity and all of the good investment decisions you brought to our organization I'm so very proud of.

But also I just want to say we're really sorry to see you go. And we do understand -- and I just have to say people don't recognize the challenges that women face in these big roles, and it's always under-recognized, right. But we respect the decisions you made for your family and wish you the best.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you so much.

CHAIRPERSON MILLER: Next we have Director Walker.

COMMITTEE MEMBER WALKER: Hi, Nicole. So I know how hard it is to be in a job that you love and through not your own wishes, you're having to step away from that job and go do something. I know the feeling that that puts inside of you. I haven't worked with you long, but I will say that from the time that I've worked with you, I've always believed that you are incredible and that you could do great things.

You said in your statement that you made the unfortunate choice. It's not unfortunate. You made the only choice. If I've learned nothing else, I know family always comes first. It doesn't matter what it is or where it is. And so -- and I'm glad that that was the choice that you had made. If you had sought my counsel, I would have told you the same thing. But I still recognize that it's hard. But I don't want you to leave knowing that I don't understand and we don't appreciate what you've done during your time here.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you so much, Yvonne.

CHAIRPERSON MILLER: Okay. Next I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you.

Nicole, I want to say I really appreciated your leadership for the last 18 months that you've been here. Really appreciate how you've moved us in our culture with the best in class, and also as well in how we are focused moving into the private markets and the one-billion-dollar mosaic program which is a diverse and emerging manager program. I really felt your leadership in that area was extraordinary, and moving us in that direction, giving us that foresight to move forward in the long run as well.

But I also want to say something about family. In the Latino culture it's la familia. And for us it's really, really important. So I understand completely with respect to your la familia and how you have to also, you know, do what you need to do.

So again, I -- from the bottom of my heart, I really appreciate what you've done for us, what you've given us and provided us, and we're very thankful that you were -- you've been with us for this long. Thank you.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you.

CHAIRPERSON MILLER: Okay. You still have the floor.

CHIEF INVESTMENT OFFICER MUSICCO: Okay. Thank you for all of those warm comments. I really do appreciate it.

I'm now going to turn to our agenda today, which we're exited about. There's a lot of tremendous work that's been done. We have a lot more to do. But we heard you loud and clear over a number of last sessions. And so I'm delighted that for the first part of our agenda we'll be bringing forward the first reading of our proposed revisions to the Governance and Sustainability Principles with our Total Fund Policy. We've created a dedicated session on labor principles based on feedback and discussions we've been having to give greater prominence to the existing language in our guidelines. I'll venture our trust level review, which is a compilation of our performance and activities across the Investment Office for the last fiscal year. And our continuous effort to improve our reporting, we have made some few adjustments that we'll bring you through.

I'm proud of the work the team has performed, and we believe this report is starting to give a much clearer and more comprehensive representation of that activity. So we hope that you're liking the new format.

You're then going to hear from your General Pension and Private Assets consultants. We'll share in Meketa with their trust level review report.

And then finally we'll end the day with the annual program reviews for Global Fixed Income and Global Private Equity. Arnie and Simiso will provide an overview of their respective programs, highlight market environment and its specific effects on the programs. They'll share investment risk, investment and risk analysis, and closing with information on any operational updates and key initiatives that we've been working on and will be focused on in the future. You'll recall we had been doing these for just the private equity programs and now we're working into a rotation each and every one of our investment strategies over board meetings; and so today is fixed income and global equities.

With that I'll turn it back to the Chair.

CHAIRPERSON MILLER: Okay. Thank you.

So we'll move right along to Item 3, our action consent items.

What's the pleasure of the Committee?

COMMITTEE MEMBER PACHECO: Move approval.

VICE CHAIRPERSON TAYLOR: Second.

CHAIRPERSON MILLER: Moved by Mr. Pacheco, seconded by President Taylor.

So any discussion on the item?

I'll call for the question. All in favor?

(Ayes.)

CHAIRPERSON MILLER: Any nays?

No abstentions.

Okay. The item passes.

On to Item 4, our information consent items.

I haven't had any request -- oh -- any requests to pull anything.

So we will move on to Item 5, our information agenda items, starting with their revisions to Total Fund

Policy.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you.

As mentioned, today we're just providing the first reading of proposed changes. Peter Cashion will be here to elaborate on that. And then we'll have Tamara Sells present the CalPERS well-established stakeholder engagement process and case studies of its applications.

So I could invite Peter and Tamara to come up, please.

MANAGING INVESTMENT DIRECTOR CASHION: Okay. Good morning, everyone.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR CASHION: So today we have the pleasure to present to you the proposed labor principles. And this will be the first reading. And then we would return in November for a second reading.

Next slide please.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: So based on our discussions both in June and July, the team's been working diligently to develop labor principles that are effectively based on what is already in our documentation at CalPERS.

CHAIRPERSON MILLER: Could you get a little closer to the mic.

MANAGING INVESTMENT DIRECTOR CASHION: Sure.

CHAIRPERSON MILLER: Thank you.

MANAGING INVESTMENT DIRECTOR CASHION: Thank you.

So we've developed these labor principles using the -- as a starting point using the existing and well-established coverage of labor principles that CalPERS already has across numerous documents, including the Governance and Sustainability Principles. We've decided to give greater prominence to these -- to this existing language and created dedicated section within the CalPERS Governance and Sustainability Principles document.

So to come up with these principles we reviewed a number of best-in-class frameworks and best-practice standards, including the International Labor Organization, the American Investment Council, and LiUNA and along with others. And the good news is that our current coverage of labor is largely already reflected in these -- in these documents and best practice standards. But we really felt there was important to profile them and pull them out into their own independent section in one location.

And as such, these will all be integrated into overall governance and sustainability principles and our investment guidelines. And then subsequently, managers will be made aware of these principles and provide periodic attestations.

Next slide please.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: So we'll jump right into the principles themselves. As you can see, there are five items that are in bold. These come directly from the international labor organization principles.

We -- beneath each of the bolded items we have a subpoint that complements and gives greater detail and granularity. These -- each of these items comes from the American Investment Council.

I'll quickly walk through each of the main points. The first relates to freedom of association and the effect of recognition of the right to collective bargaining.

Next is the elimination of all forms of forced and compulsory labor.

Third is abolition of child labor.

Four, elimination of discrimination and respect of employment and occupation.

And, lastly, a safe and healthy working environment.

Next slide please.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: So as stated, we already have solid coverage of labor principles across a variety of documents, including the investment beliefs, governance and sustainability principles, and our ESG guidelines.

Next slide please.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: This graphic shows how we've blended, merged principles from our existing CalPERS language, referencing the American Investment Council guidelines for responsible investing, as well as the ILO standards, principles and rights of work. And the culmination of this is the CalPERS labor principles that will be identified in a specific standalone section of our document.

Next slide please.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: So here is the presentation of the ILO standards, which I've already stepped through. The next slide presents the American Investment Council guidelines for responsible investing. There are 10 of these overall. And five relate to labor. And those are the points that we've pulled out to identify here.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: On the next slide, in terms of next steps, so we will gather feedback from the Board in this session and this will be a first read of the policy update. We will then come back in November for a second read, an action item for policy update. If that is approved and passed, then we will take steps to integrate that into our documentation and our ongoing diligence and rollout of our work.

Next slide please.

--o0o--

MANAGING INVESTMENT DIRECTOR CASHION: Now I have the pleasure to pass to Tamara for the stakeholder engagement process.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you, Peter.

Good morning, board members. Thank you so much for having me today. My name is Tamara Sells. I'm the associate investment manager on the sustainable investments team. I'd like to just provide you with an overview of this stakeholder engagement process.

Consistent with the total fund investment policy, CalPERS has had a long-standing stakeholder engagement process that provides an avenue of communication for our stakeholders to raise issues related to systemic risk and those linked to ESG sustainability as well as responsible contracting.

The visual before you illustrates a high level stakeholder engagement process the CalPERS staff followed to identify and mitigate risks to our portfolio that can negatively affect CalPERS' investment returns, our reputation and trust. We address each issue consistent with our fiduciary duty to our members and our beneficiaries which begins with Step 1, which is identifying the issue.

These issues again run the gamut in terms of ESG or sustainability broadly. They can also fall under responsible contracting and they're raised in a variety of ways, through our managers, through our stakeholders, the media headlines, and even through our relationships with external managers.

We assess each issue raised to determine to what extent is the issue supported by CalPERS's investment beliefs, our principles and our policies. Then we move on to Step 2, which is conducting the initial information gathering. In this process -- or in this step - excuse me - we assess the materiality of each issue and in particular the potential impact to our portfolio's risk and returns. We assess the specific asset class that the issue falls under, our portfolio exposure, and the relevance to long-term performance.

We also assess the stakeholder's ask of CalPERS to evaluate whether our actions will influence a measurable outcome and whether CalPERS should partner with others to achieve success or some other approach that's more suitable to adjust the matter.

We research our prior work, our letters, our company engagements, proxy votes, and any other historical information that helps us provide context to how best to mitigate the risk.

And, lastly, we assess whether CalPERS staff have the expertise, resources, and standing to influence an outcome.

Then we move to Step 3, which is conducting the stakeholder engagement. CalPERS staff undertake constructive engagement with our stakeholders to understand their concerns. When engaging with our stakeholder we look to understand their perspective on the issue, the direct impact that the issue has to their members, and also to understand what local, state or federal resources that the stakeholder has already utilized.

Then we move to Step 4. And that's conducting the investment manager or portfolio company engagement. CalPERS staff will engage our external managers and portfolio companies, and we -- to the extent we can, we'll encourage managers and companies to seek a plan for resolution, risk mitigation, and controls to prevent future issues.

And I just want to highlight then in Step 3 and 4, that could be a continuous ongoing process, as some of these issues are quite complex; so there can be a number of follow-up engagements with both the stakeholder and the company under a manager.

Then we move to Step 5. In Step 5 we continue to monitor the issue and we provide regular communication to all of the relevant parties. Although each engagement varies, the ongoing monitoring of the issue or the matter could last months or longer.

Staff will conduct follow-up meetings with stakeholders, companies, and managers as needed. And we encourage our stakeholders to keep us apprised of any relevant updates that are related to that issue.

And, lastly, as each -- since each matter raised varies, how each matter concludes is not the same. The engagement process may conclude at any phase based on our analysis and findings. But we do work to ensure that the stakeholders ask of CalPERS or at best a resolution has been reached.

CalPERS staff will send an update to the stakeholder and the manager that outlines our engagement summary and our outcome.

And so to summarize, CalPERS staff follow a long-standing and a thoughtful approach to the stakeholder engagement process that is consistent with our investment belief, particularly investment belief number 3, and our total fund investment policy. Each issue raised is screened, using the prioritization framework outlined in the investment brief number 3. Our CalPERS stakeholder investment process is rooted in information gathering in order to assess and mitigate risk to our fund. We address each issue case by case but always consistent with our fiduciary duty.

Thank you.

CHAIRPERSON MILLER: Okay. Thank you.

It looks like I have a comment or a question from President Taylor.

VICE CHAIRPERSON TAYLOR: Thank you, Chair Miller.

So thank you, Mr. Cashion, Ms. Sells. I appreciate your work on this and getting our first reading on these guidelines. So I'm very happy with these. I think I had -- and so I just -- I had a couple of questions. I'm going to start because you were at the end so I remember what I was going to ask better, Tamara.

So then at the end of the engagement process, then you update to the stakeholder and to management.

Generally -- or a lot of times these issues come in -- sometimes they're just straight to you, but sometimes they come in through us.

ASSOCIATE INVESTMENT MANAGER SELLS: Right.

VICE CHAIRPERSON TAYLOR: So do you generally like send us a quick note as well?

ASSOCIATE INVESTMENT MANAGER SELLS: Absolutely, yes. No, I --

VICE CHAIRPERSON TAYLOR: Okay. I just want to make sure.

ASSOCIATE INVESTMENT MANAGER SELLS: I apologize that I forgot to mention that. But, yes. Depending on how it comes through, if it comes to one of our board members or to Marcie or to Nicole or Dan, we definitely will follow-up and owe an engagement summary to whomever that executive sponsor is to make sure that they're fully aware of the engagement outcome.

VICE CHAIRPERSON TAYLOR: Perfect. Yeah, because I get those questions follow-up for myself as well. So --

ASSOCIATE INVESTMENT MANAGER SELLS: Yes.

VICE CHAIRPERSON TAYLOR: -- they need to know that.

And then so I -- and then for -- Peter, I just wanted to tell you, really, really great ideas. I think I mentioned this in our briefing. I think that it's critical for our investment partners to commit to this risk mitigation, and I'm glad we're doing this. And I think -- just really quickly, can we discuss -- I think you discussed it during our briefing -- sort of the idea of how we got to -- how we're going to implement this.

So first we're implementing it across all asset classes. But secondarily, we're implementing it in private equity, which is one of our -- this is a new thing for private equity. So how do we implement it; what's the structure for that?

And then is there any data gathering? As we go -- move forward, is that data -- does it -- is it going to take a year of reporting? For example, how do we gather that data? Is that because, you know, we -- they've signed on to these ideals and then we are still getting X amount of problems coming in that have to do with labor and the labor principles. So then we need to tweak something. So how does that work? How are we going to move forward for data gathering and then making sure that we're coming back and checking on these principles?

MANAGING INVESTMENT DIRECTOR CASHION: Thank you, Ms. Taylor.

So, in terms of the implementation it will be across a total fund, all of INVO. In terms of our first steps, it has been with private equity, but that will roll out across all asset classes.

With respect to implementation, what we will do is include this in a side letter at least for private markets - I guess could be public as well for active managers - whereby they will at the beginning acknowledge that they -- the labor principles, and then provide periodic attestations in line -- that they are aware and broadly aligned with the principles.

In terms of monitoring, so -- and data gathering, so that will really be captured through the work of Tamara and her stakeholder engagement. And, you know, we can I think assess over the first time period, whether it's a year or an appropriate time span, the implementation of it, what is -- what is working, if there's any areas for improvement.

VICE CHAIRPERSON TAYLOR: Okay, great. I appreciate that. Thank you. I just wanted to kind of figure out how we're going to do this, because always having the data matters, right.

And one last question for both of you is, as we're moving into the engagement process when these things come up, are we making sure that we're talking to the labor individuals, not just the management company; but are we also engaging the labor folks that are bringing these to our attention?

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question. Yes, absolutely. The stakeholder voice and their opinion on the matter is a extremely important part of the process. And so we want them to understand that they have an avenue of communication and a point of contact. And like I said, we might have multiple follow-up meetings with the stakeholder to ensure that we are on the same page. But absolutely we want to hear from the stakeholders.

VICE CHAIRPERSON TAYLOR: Okay. Thank you very much, you guys.

CHAIRPERSON MILLER: Yeah, thank you.

Next I have Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, Mr. Chair. And thank you President Taylor for your questions. Peter, Tamara, this is a good step forward and I really appreciate the work that everyone has put into this. There are issues that are going to arise after we have made an investment and we determine that we have made an investment in a firm that is not following through these principles.

But the bigger question frequently is how do we avoid involvement in the first place. So could you walk us through some of the steps you'll be taking to be proactive and make sure that we do not get involved with organizations that do not comply with these principles.

MANAGING INVESTMENT DIRECTOR CASHION:

Ms. Middleton, that's an excellent point. And in fact not even for labor principles but also for broader ESG standards and guidelines: The main thing we are trying to influence is avoiding these topics, avoiding these problems in the future. And that is like -- that is the fundamental objective is to bring greater awareness and sensitivity both through -- by the general GPs, the general partners, and the portfolio companies so that these, problems, issues - labor, health and safety, any environmental topics or issues - are avoided -- the problems are avoided.

Now, in some cases, there will still be incidents or issues; we invest in many thousands of companies. So it's important that we if anything does occur, first that we have a clear engagement process and, second, that we have the comfort of knowing that we have our standards that the manager attested to and for whatever reason they may not have been followed.

So, yes.

COMMITTEE MEMBER MIDDLETON: Then let me add just a couple of comments on a couple of the issues. For context, over the last four decades, one of our political parties and agents in numerous corporate organizations have had a prolonged attack on the right of representation, and have done everything that they can within the law and in changing the law to reduce the number of individuals who are represented and to walk up to where they're toes are touching, if not barely getting over, the line of what would be an unfair labor practice.

I think the pendulum is beginning to turn. And this organization that was built by American labor does not want to be associated with organizations that do not in fact support the right of representation of their employees.

Secondly, we have a broken immigration system in this country. And today there are millions of youth that are here without documentation and frequently without family. And we find many industries that are taking advantage of this. We resolved issues of child labor over a hundred years ago, and I have absolutely no patience for any corporate entity that is employing a child, period.

Thank you.

CHAIRPERSON MILLER: Okay. Next I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Chairman Miller. And I also want to thank my fellow board members, Ms. Taylor and Ms. Middleton, on their comments as well.

I'd like to go -- Mr. Cashion, I'd like to ask you a question regarding the process to refine the CalPERS language on labor into the labor principles, the three buckets there. One's separated with respect to the existing CalPERS language on labor, the AIC's guidelines for responsible investing and the ILO. And it's fascinating that it -- how you elaborated on your remarks that a lot of these principles were already in our investment policy but in different locations. So it's -- it was there but it wasn't really pronounced, like how it's pronounced with respect to the investment beliefs, you know, how we have the investment beliefs at the top of our world.

And I also want to mention that it's also interesting that, you know, this document, this investment policy's been around for decades. You know, it's in many respects a living document or how we utilize this.

So my comment is, I want to go back to the -- and how we're going to implement it, or basically supplement this, on the AIC's guidelines for responsible investing. I'd like to -- maybe you guys can elaborate more on that on what is that association and who has signed on to make sure that the ones who -- because they're ones who -- whoever there's here to -- you can elaborate more on that, because it kind of would give us some perspective of --

because we're going to be doing this for private equity first on how we can -- who are the players in that particular area. So if you can elaborate on that, please.

MANAGING INVESTMENT DIRECTOR CASHION: Thank you, Mr. Pacheco.

So the AIC has a broad membership, including many of the leading private equity firms. And as I said previously, they have 10 guidelines on responsible investing. We've reviewed those, and five were closely related, linked to labor, which is why we've incorporated those in. So I think it has been a good blend of both in -- you and related industry association group, AIC, plus our own existing standards which were already -- had already had very strong and good coverage of labor and bringing it into one location.

COMMITTEE MEMBER PACHECO: Excellent.

ASSOCIATE INVESTMENT MANAGER SELLS: As far as that list of organizations, I think we can look into that and get back to you on that.

COMMITTEE MEMBER PACHECO: Oh, fantastic.

ASSOCIATE INVESTMENT MANAGER SELLS: Not a problem.

COMMITTEE MEMBER PACHECO: No, I was just curious of how that would all -- laid out.

And then the other process is with respect to the stakeholder engagement process. You mentioned in number -- I believe it was number -- let me just get my notes here -- I think it was number 3 and 4 that the engagement could be ongoing. Can you elaborate on what you mean by the ongoing engagement?

ASSOCIATE INVESTMENT MANAGER SELLS: Yes. So we will have -- we'll conduct an initial engagement with the stakeholder just for information gathering to try to understand what the -- or identify what that issue is. But we continue to go back to the stakeholders once we have updates. That could take weeks sometimes, just depending on when we can get in touch or get on calendars for -- with the managers or with other companies. But we will continuously have a feedback loop with the stakeholder as we have updates. And then as I've mentioned, we also want the stakeholder to continue to feel free to bring us updates as well that are relevant to that situation, which will help us factor that in to our approach and our strategy as to how to mitigate that risk.

So there will be multiple follow-up engagements with the stakeholder throughout the entire process and potentially monthly meetings with the managers as well or the portfolio company.

COMMITTEE MEMBER PACHECO: Just to follow-up on that.

ASSOCIATE INVESTMENT MANAGER SELLS: Sure.

COMMITTEE MEMBER PACHECO: After it -- we continuously have this engagement, the goal -- the end goal, it's my understanding, would be to have a resolution of some sort, right?

ASSOCIATE INVESTMENT MANAGER SELLS: Right.

COMMITTEE MEMBER PACHECO: Where we would move to the Step 5 where the monitoring aspect of this. Am I correct here or -- I'm just trying to understand.

ASSOCIATE INVESTMENT MANAGER SELLS: Right. So when we move to Step 5 for monitoring, a lot of times we haven't met a resolution yet. So that's why we're monitoring, and we're trying to --

COMMITTEE MEMBER PACHECO: Okay.

ASSOCIATE INVESTMENT MANAGER SELLS: -- yeah, to get to that point for Step 5.

So that's what I'm saying, each issue how they actually sunset is different depending on the case by case. But that monitoring step can last weeks or months depending on -- we're usually waiting on the company to engage with the stakeholder or the managers engage with the stakeholder. We're trying to see how they've made any changes at the company, if they've implemented internal controls and so forth. So sometimes that takes a little bit of time.

COMMITTEE MEMBER PACHECO: But as you mentioned in your remarks, it's a -- each case is different for each case. So depending upon the case, it will take us -- it depends on how long it would take us to get to some sort of understanding.

ASSOCIATE INVESTMENT MANAGER SELLS: That is correct.

COMMITTEE MEMBER PACHECO: Very good then. Thank you so much.

ASSOCIATE INVESTMENT MANAGER SELLS: No problem. Thank you for the question.

CHAIRPERSON MILLER: Next I have Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair.

First I want to thank you both for the excellent presentation. I'm very pleased to see that these labor principles which have always been part of the CalPERS body or canon, I guess. It's been sort of put in a concise section so it's clear within the Governance and Sustainability Principles; and more importantly that it's reinforced that's clearly nested within our fiduciary duty.

And I appreciate the statements you made, Peter, about the managers will be made aware that we'll take steps to implement and make sure there's ongoing diligence and work.

So my question is: One of the methods of implementation that you point out it was through private -- these private letters, with private equity. And so that's good. And you both had some discussion here in this body regarding the use of private letters.

Has that been -- is that a new concept or have we used that already regarding labor principles?

MANAGING INVESTMENT DIRECTOR CASHION: So the side letter concept is not new. We currently have a side letter and it references our ESG policies and procedures. But it doesn't specifically call out labor principles.

So this will be one of the proposed changes, to call out labor principles and also request that the general partner inform us if there's any material ESG incidents or if there's a material change to their policies.

COMMITTEE MEMBER RUBALCAVA: Thank you.

And, Tamara, it's good to see you here. And I really appreciate the presentation, the stakeholder engagement process and how we are engaging throughout the whole range.

So my question is: I know that you -- based on the responses to my colleagues, that there will always be report back. At what point do you foresee coming -- you're going to be monitoring. So at what point to decide we need changes? Say this is adopted. At what point do you decide we need to perhaps bring back more recommendations? Or is that in the timeline, is that an annual revisit, or is it -- what is the thinking there? Because we want to strengthen to make sure it works for the changing economy, for example. I mean private -- especially private equity is growing and has a lot of industries under it. So -- umbrella.

ASSOCIATE INVESTMENT MANAGER SELLS: Thank you for the question.

I would -- and I hope I don't speak out of turn here, but I would assume since this is the first go-around, maybe after a year we do an assessment just to see how things are and kind of level set.

Going forward, I don't know what's the appropriate pace. But I would say, you know, give this about a year, give us some time to really understand how it's working, implementation of it. And then we'll go from there in terms of frequency.

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: And, Mr. Rubalcava, that aligns with our -- with the way that we approach the policies, an annual review of the Total Fund Policy with a first reader, a second. So we would line this up with that if that works for the Board.

COMMITTEE MEMBER RUBALCAVA: Thank you, Dan. And than you both -- thank you, all three.

And my final comment - it's a comment, not a question - is I think -- I should -- I didn't speak earlier, Nicole, but I think I told you privately. I really appreciate the emergence you brought about private equity as being consistent and making up for the lost decade, and your commitment to emerging matters. I think part of your legacy could we just labor principles. I know we had a debate back and forth. But it's here before us and it's under your leadership, so I appreciate that. Thank you.

Thank you all.

CHAIRPERSON MILLER: Okay. Thank you.

Director Willette.

COMMITTEE MEMBER WILLETTE: Thank you so much. Good morning. I really appreciate you bringing these labor principles to us. I'm really excited. I'm really happy with the slides. And I just want to reiterate my colleagues' comments here, kind of make some underlines.

I do believe that this is central to our fiduciary duty. And I think that that will go far for us.

As to President Taylor's comments, our ability to collect data -- to collect third-party data especially from primary affected workers is critical for us to make decisions on to better our members' benefits.

We do look forward to moving forward and working with all of our investment partners and other investors to see these standards, you know, work, take hold, be implemented. And I also encourage you to work with other investors. And I would love to see thoughts on how we can build out with other investors on these principles so that it's not just -- I love that CalPERS is leading on this. I'd love to see us at the industry standard and move forward so it's not just CalPERS.

And, finally, you know, any great plan is just on paper until we put into practice. If there's any resources you need to do this great work, please come back to this Board. I look forward to having a year update, right, with part of the Total Fund Policy updates. But if there's any point, you know, please come to the Board and we would love to know what's going on at every step. I think managing the structural risks and opportunities like this are really good investment in ensuring this fund's future. So I look forward to seeing this grow.

Thank you.

CHAIRPERSON MILLER: Okay. Thank you.

Next I have Director Walker.

COMMITTEE MEMBER WALKER: Thank you. Thank you.

Hi.

So quick question that came to me - and it might -- this might be in the wrong place. But just something that came to me while I was listening to my colleagues. So as I -- before I start let me just say I really do appreciate the principles and the work that went into the document, right. I think they're right. I think they were what we were asking for. So I -- that's all I have to say.

So when I think of these things, I think of them more as a filter, right. So as we're going to invest in the company, like it's a filter that we go through: Are they hitting these points? Are they hitting that points? And so are there ever -- is there ever any time where we come up on a company that we think is going to be great but they're not hitting our principles, that we make the decision like, "Look, we're not -- you are not our kind of company. We're not going to invest our money in you"? To know that that's out there?

Or once we've invested in them and we have figured out -- like, we've gone through this long process and we're checking and checking and checking, but really the same thing keeps happening over and over again. So this is not a blip; it is a way of doing business. At what point do we come to the decision to say, "Look, again you're not our kind of people; you are not deserving of having working people's money invested in you"? Because that to me makes it have -- makes it be a little more real. People know that this is more than just pretty words on a paper, but this is actual fundamental beliefs that CalPERS has and unless they can meet those challenge -- not challenges, but unless they can meet our beliefs, they are going to sacrifice doing business with CalPERS.

And so how -- how does that work? How strong are we with it? Maybe this is not the right time to answer it, but that's what came to me as I'm, you know, listening to my colleagues ask the questions and everything else.

MANAGING INVESTMENT DIRECTOR CASHION: Thank you, Ms. Walker.

When CalPERS is evaluating an investment, whether it's in a fund or an individual company through co-investment, my view is that the principles are the principles and those have to be followed and respected both at the beginning and in an ongoing basis. So if you take some of our principles, I'd be hard pressed to think we would do an investment, for example, if the child labor principle wasn't being respected. So I think those are kind of fundamental beliefs and we expect all to follow those; and, frankly, in many cases it's just simply the law.

But if we take your example and more broadly on ESG, for example, Environmental Social Governance, and let's say that we're investing in a company and we want that company to report on its emission with greater detail and granularity; so we need to give the company time to develop that capability and competence, so we're willing to give some - whether it's 12 months, 18 months - for them to develop and build that capacity and that muscle. So that's an example where we can give them -- you know, work with them or at least advise them on who they could work with to develop and build.

If something does go wrong, if there is an issue, an incident, then of course we will follow our stakeholder engagement process. And really, it's really difficult to say, you know, what action we would take because it's so case by case. However, we would clearly require, whether it's the GP or the company, to take the appropriate action if there has been a violation or a breach of either a law or a standard or our principles themselves. And I -- I can only assume that a company or a GP would take that action.

And as we said earlier, really these are there to avoid those situations. So to the maximum extent possible we want to avoid.

DIRECTOR WALKER: Thank you.

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: And, Ms. Walker, I'm sorry. The only thing I would add to that is that -- the answer to your question is yes. We have avoided companies and we have avoided partners that have been inconsistent with our principles. And that will be the case, because our principles are there for a reason.

COMMITTEE MEMBER WALKER: Thank you.

CHAIRPERSON MILLER: Okay. Doesn't look like I have any more questions from the Board on this item.

I'll just make a brief comment. I think -- to me this is particularly exciting because of the burgeoning private equity space and our leadership role as we move more into that space. And I think often with private equity, we dwell on kind of the -- all these classic examples of kind of exploitive extractive kind of approaches to adding value whether it's, you know, buying a hotel chain and breaking it up and selling the hotels and making parking lots out of them or whether it's exploitive labor practices. But the flip side also is, in that space there are partners that we can work with who add value by bringing operational improvements, efficiencies, better inventory, better technology; but also better labor practices, who understand how to work with their workforce to improve efficiency, effectiveness, who understand how to work with the unions to be partners to bring that kind of change forward.

And I think that also, you know, highlighting this and moving that direction as we continue to do more and find these great partners, whatever their strength is, however they do that value-add so that we can outperform expectations, this gives us again more strength to lead on, and I think -- I think you and the team and Nicole's leadership for, you know, giving us this extra set of tools to continue to lead on both the thought level and the performance level.

So thank you.

With that, we have a number of public commenters that I want to get to. And we had a commenter on the line for 4C that I missed earlier, and I think they've hung up. But if they do come back on the line, if your out there listening, I will circle back to you if you get back on.

So we have a commenter for number 2. And we'll start there. And then we've got quite a few commenters for 5A, and so I'll make another remark or two before we start them.

But first number 2, Valentina Dabos from the public, if you would come forward.

And just turn on the light. A microphone there. And your time will start when you begin to speak. So identify yourself and speak.

VALENTINA DABOS: Good morning, Chair and trustees. My name is Valentina Dabos with the Private Equity Stakeholder project. I have a watchdog on the private equity industry. We frequently report to investors on our findings of unsafe working conditions, wage theft abuse, and anti-union behavior by private-equity-owned portfolio companies.

The private equity industry's own efforts purporting to manage human capital have been grossly inadequate, and those failures have exposed investors to financial and reputational risks.

We commend this board's leadership in calling for strong labor standards in private equity. Our crucial step to protect CalPERS' interests in long-term value creation and risk mitigation as part of a fiduciary duty to the system participants.

One clear example of the need for labor standards is the appalling child labor scandal at Blackstone-owned slaughterhouse cleaning company, Packers Sanitation or PSSI.

As you know, The U.S. Department of Labor found systemic failure across Packers Sanitation's entire organization, which employed at least 102 children across eight states in conditions of oppressive child labor.

A DOL investigator told 60 Minutes there's no way this was just a mistake, a clerical error or a handful of rogue individuals getting through. This was the standard operating procedure. After continued bad press, pressure from labor rights groups, an increase from Blackstone investors including pension funds in California, New York, South Dakota and others, PSSI reached an agreement with UFCW to enable workers to organize and improve working conditions and wages.

Well before the child labor scandal broke, PSP wrote a report, Profit Over Safety, asking why Blackstone took millions out of PSSI in dividends while it remained an extremely dangerous workplace with several employee deaths during Blackstone's ownership.

The company also spent significant resources on union avoidance firms to discourage unionization after acquisition by Blackstone. It remains important to ask why it took one of the largest child labor scandals in modern history for Blackstone to acknowledge employees' labor rights as a key factor in guaranteeing good working conditions across one of its large portfolio companies. Blackstone has half a million employees across its portfolio, making it one of the world's largest employers.

CalPERS also investments with private equity firms CD&R, Apollo, Brookfield, and Cerberus, all of whom have had or continue to have recent public labor disputes. We believe these serious high profile labor disputes show the need for private equity firms to make real commitments to labor rights before receiving additional Investments. PSP has developed the private equity labor rights platform to that end and we welcome dialogue around these standards.

We welcome the proposed CalPERS' labors principles as a first step and encourage CalPERS staff and trustees to continue to work towards enforceable principles with real processes to ensure that managers do not violate worker rights. Implementation must require private equity firms to adopt such principles before committing capital and a rigorous process to ensure manager compliance.

Thank you.

CHAIRPERSON MILLER: Thank you. Appreciate your comments.

Okay. I just want to mention for the record that Dr. Gail Willis has joined the call remotely via phone. So Dr. Willis is on the line.

So next we'll take our public commenters for Item 5A. And because we have so many, I'm just going to ask everyone to do your best to keep your comments brief and concise. And to the extent that a commenter has already made comments that you are going to make, it's perfectly fine to just say, "What they said."

Yeah, and try not to repeat things if possible so that we can get everyone through their time.

You'll each have three minutes. The time will start when you begin to speak. So identify yourself, begin to speak. You'll see the clock, it'll be running, and you'll have your time.

I believe we have a few people who are joined by translators. And I believe our process is to allow additional time for the folks with translators, if I'm correct. So we'll get started.

So the first person I have is it looks like Patricia Gutierrez; and joined with a translator. So if you'll come down.

And they will be followed by Jennifer Diaz de Monsterosa and a translator. So if you could come down as well. And take the two seats to my left there, the first two seats.

Okay. And I believe our first two speakers are with UFCW.

Okay.

PATRICIA GUTIERREZ: Good morning. My name is Patricia Gutierrez. I have worked at Cardenas Markets for the past eight years. I have made a trip here because I want you to know as investors in Apollo that Cardenas is treating us badly. And that is not good for us and for your investment.

I think you are passing labor principles today. I can tell you we really need them at Cardenas, so we can work to the best of our ability for us and for you. In April of last year, the person in charge of the bakery at my store in Coachella, California, left. The store director talked to me about being supervisor of the bakery, but then ignored me after I said I was interested. Since then, they hired two men to fulfill the position. One left and the other is gone a lot, leaving me to cover and fulfill the work of two people.

When I was asked to train a new worker, I said, "Yes, but it will take time away from baking." The store director told me if I want the job, you better not say anything, as he threatened me.

Recently, we were without air conditioning in the bakery for more than two months. And they only gave us small fans. The fans don't help us at all. We leave battle and sweat because of the ovens because of how hot it is in there. And that is not a safe way to work.

When I got sick in December, the doctor gave me a note saying I needed three days off from work because my lungs were inflamed. So I asked for sick leave. Instead they took it out of my vacation. I explained my situation to the secretary and she replied curtly, "Well, that's not my problem either."

I believe that we need a union so we can make our jobs safe and work at our best for your investment. And I don't feel I can speak up at work without my managers threaten me. We support your labor principles and we want Apollo to enforce them at Cardenas. That's what Apollo should do for you.

Thank you.

CHAIRPERSON MILLER: Thank you.

Okay. Next.

JENNIFER DIAZ de MONSTEROSA: Good morning. My name is Jennifer Diaz de Monsterosa, and I have worked at Cardenas store in San Jacinto, California, for five years. I came here today with my family and other Cardenas workers because Apollo invests your money in Cardenas, and Cardenas is mistreating us.

I am glad you are meeting today about making your investments have good labor principles because I think Cardenas is an example of why you need to. I feel that we could make Cardenas a better business for you and a better place to work if Cardenas would treat us with respect and we could speak up without being harassed.

In December, I hurt my left shoulder at work during working hours. Then the manager began manipulating my schedule, reducing my hours to the minimum. I lost many days of work.

They will do things to get me to leave. And so unfortunately I had to resort to a third person to assess my rights.

In Decem -- in 2022, my husband and I had a daughter. And we work in the same store. When I return from my paid family leave, managers work with our schedules since we did not have a babysitter. But after my injury, they would put us on the same shifts or mid shifts, and we don't earn enough to hire babysitter with the few hours they give us.

Then after I went to a rally to help my co-workers organize a union, they stopped posting my schedules. So I had to ask from day to day when I was supposed to work. That's when my supervisor tried to humiliate me specifically on Father's Day by timing my checkouts and saying a new person was checking out more items per minutes than I was.

Now I only get 30 to 32 hours a week - not even 40 hours - and I'm supposed to be a full-time. I feel that these are retaliations against me. I don't believe it helps your investment to harass a good worker just because I got injured at work or because I want a union.

I want a union because we can't do our best work for your investment the way we are treated. You are investing in us. I hope you will make Apollo live up to your principles at Cardenas. It will be better for your investment in all of us. Thank you for passing them.

CHAIRPERSON MILLER: Thank you.

Okay. Our next person here is Gretchen Newsom, if you would make your way down.

And meanwhile I want to circle back. Our caller on 4C is on the phone. So I'd like to hear from them now if we can get them on the line.

STAFF SERVICES MANAGER I FORRER: Yes, one moment please.

CHAIRPERSON MILLER: Yes, go ahead.

STAFF SERVICES MANAGER I FORRER: Yes, Mr. Chairman. J.J. Jelincic is on the line talking to Item 4C.

CHAIRPERSON MILLER: Okay. Mr. Jelincic, you have the floor.

J.J. JELINCIC: This despite just because it would disrupt it less.

But anyhow, J.J. Jelincic, beneficiary. No matter how you got on the dais, elected, appointed or a designee, you work for me and the other beneficiaries. You owe us a duty of loyalty and care.

You used to provide monthly information on what you were doing with our money and the risks you were taking in the PERF. Then you decided to only provide quarterly information. The last time you provided even that information was in March, and that information was for the fourth quarter of last calendar year. I don't know if you decided to suppress the information because you were ashamed, or embarrassed, or just decided, "I don't gotta, so I ain't gonna."

Tomorrow, when you're in closed session to discuss an approved management bonuses and pay increases, I hope the shame, embarrassment, and arrogance is part of your discussion.

In June, you were about to approve a change in the insider trading policy. You stopped only because it came to your attention that it was going to hurt you unit and labor bonafides by ignoring your own employees' bargaining rights. You directed management to meet with the labor organizations and bring the issue back at this meeting. It's not here. I assume this insubordination will be also part of your backroom discussions.

Thank you.

CHAIRPERSON MILLER: Thank you.

Okay. We'll move forward on the next comment on 5A.

GRETCHEN NEWSOM: Thank you.

CHAIRPERSON MILLER: Ms. Newsom.

GRETCHEN NEWSOM: Tough act to follow.

Honorable Board Members. My name is Gretchen Newsom. I'm representing the 9th District of the International Brotherhood of Electrical Workers, speaking on behalf of our 155,000 union members of IBEW.

Today I address you on a matter of significant importance, the imperative for CalPERS to adopt a third bottom line in your investment standards, one that champions workers and unions.

In the past I had the privilege of working alongside former California State Treasurer Phil Angelides, when he introduced the double bottomline policy here at CalPERS. That groundbreaking policy combined financial returns with environmental social considerations, recognizing that prosperity should not come at the expense of ethics and societal well-being.

CalPERS, entrusted with states guarding the retirements of union members, carries a unique responsibility. We implore you to integrate robust labor standards into your investment policy, standards that bolster unionization, worker dignity, and an improved quality of life. This includes neutrality agreements, card check agreements, project labor agreements, worker retention policies, equitable wage progression, and a commitment to refrain from supporting companies that undermine unions.

Let me illustrate the urgency of this need with an example. Westinghouse under the ownership of Brookfield, our CalPERS investment, is currently waging an anti-union campaign at Hopkins, South Carolina, at the Columbia Fuel Fabrication facility. Workers here handle hazardous materials and are striving to secure a safer working environment with representation from IBEW. Yet they face intimidation and coercive tactics, stifling their freedom to choose to unionize. This troubling situation has led to pending unfair labor practice charges against Westinghouse involving nine violations, including threats to workers for discussing union matters.

To underscore the gravity of the situation consider that in 2016 air pollution systems at the facility contained alarming levels of uranium. In 2019 three workers were hospitalized following maintenance involving hydrofluoric acid. Ground water under the plant in 2018 exceeded safe drinking water -- or standards. And in 2022, an alarm system for critical events failed. Those workers were failed.

These safety concerns underscore the urgency of safeguarding worker rights to organize. A unionized workforce -- excuse me. A unionized workplace not only protects workers but also fortifies the safety of the surrounding community. Anti-union campaigns such as the one at Westinghouse revealed disturbing lack of corporate integrity. By integrating robust labor standards into your investment policies CalPERS can champion a level playing field nationwide lifting up all workers.

And in conclusion we call upon CalPERS to take the high road and embrace enforceable labor standards throughout your investment portfolio. This decisive action will not only enhance the working conditions but again elevate those workers and fortify their rights in seeking to organize and unionize. It is time to ensure that the voices of workers are amplified and their rights are protected.

Thank you for your unwavering support for this.

CHAIRPERSON MILLER: Thank you.

Next I have three commenters from Unite Here Local II - Habibulhaq Qazizada, Jose Preciado, and Susan Minato, if you'll work your way.

Oh, Local 11. Okay. If you come on down.

SUSAN MINATO: I'm going to go first.

CHAIRPERSON MILLER: Okay. Identify yourself, and your time will start and the clock will begin.

SUSAN MINATO: Thank you.

Good morning, everyone. My name is Susan Minato. I am co-president of Unite Here Local 11. We're more than 30,000 hotel and service workers in Southern California and Arizona.

On July 4th, approximately 15,000 hotel workers at over 50 hotels went on strike. They're still on strike. And they are asking really truly for the bare minimum to survive - living wage, fair benefits - in a time when housing costs are so exorbitant they're dollars have been de-valued.

Many of these brave workers are here behind us today. Some of them are on the dais with me. And we're here because 40 percent of those hotels that have gone on strike are owned or operated by private equity firms with money CalPERS is invested in. A current CalPERS commitment in both of these companies, total of 2.88 billion in seven Advent funds, and CalPERS, 4.4 billion in Blackstone. Sorry.

Three are owned by Blackstone. Thirteen are on strike and operated by Advent who owns Aimbridge.

So, these strikes present clear ESG risks to CalPERS. We have over 40 full conventions with full documentation from the customer that have moved events from the striking hotels or canceled them altogether, amounting in millions of dollars in lost revenue and reputation. And we believe the number to be much greater. This is just where the customer has documented. And I wanted to be very careful when I told you that. And we are currently trying to pull conventions out all the way to 2028.

We -- our members thank CalPERS staff and trustees for canceling the pathways to Women's Conference that was being held in the Anaheim Hilton, where workers went on strike. So thank you for that.

Further, another metric. The strikes have been covered in 1,725 separate TV, radio, and online news clips, creating headline and reputational risks for Advent, Blackstone, and CalPERS. The total reach in that for those of you who know social media is about 6 billion. And that's many who -- that's people or groups that have come across the content on social media.

So we're especially here today though to applaud CalPERS for introducing labor principles to be incorporated into its Total Fund Policy. Our union and your fund's interests are aligned. Strikes are difficult for our members but also damaging to CalPERS returns.

So our experience, we have vast experience in policy as a union and often in conjunction with SEIU. And one of the best ways we feel that has achieved a positive labor piece is something we refer to as a labor piece policy. At LAX, biggest -- one of the biggest airports in the world, there is a simple but effective labor piece policy passed by the LA City Council. And this labor piece has been effective in protecting the public body's proprietary interests. There have been no strikes at LAX, no boycotts at LAX associated with labor disputes in the 16 years that this policy has been in place.

CHAIRPERSON MILLER: Your time has run, so I'll ask you to wrap it up.

SUSAN MINATO: Oh, thank you. I'm sorry about that.

And so I just wanted to mention the labor piece policy because it's such a success. LAX is a big airport. And we do look forward to collaborating with you, the trustees, and staff to revise the policy.

So thank you so much.

CHAIRPERSON MILLER: Thank you for your comments.

And who's going to speak next?

Yeah, if you could get a little closer to the microphone.

HABIBULHAQ QAZIZADA: Hello. My name is Habibulhaq Qazizada. I'm a housekeeper at the Sheraton Hotel in downtown Phoenix, and I'm a proud member of the Unite Here Local 11.

I came to the United States as a refugee. In my home country of Afghanistan. I worked with the U.S. military as a sergeant. After the U.S. military left Afghanistan and the U.S. withdraw from the country, I had to flee my country home and leave my wife and kids behind. And now I worry about their safety every single day.

After I arrived in the U.S., I was able to get a job at the Sheraton with the help of Refugee Resettlement Agency. I work hard at my job and I suffer through horrible back pain just so I can earn enough to send money to my wife and kids back home. I live in an apartment in Phoenix with two roommates, but I pay over $1,700 a month on the rent. There are week that I don't earn enough money and I am forced to make a very difficult decision to pay my rent and send money to my family in Afghanistan. Because of my career I would be able to retire with a pension after coming to the U.S. I had to leave everything behind - my house, my family, my career - because of -- because my life was in danger.

The workload is very heavy and I feel worker every day, I don't know how long I will be able to keep working. But I have pushed through for my family and myself. Blackstone is the largest investment company in the world, with one trillion dollars. They can afford to pay us fairly, give us affordable health care and provide a pension.

Thank you for your listening and for your support.

CHAIRPERSON MILLER: Thank you.

JOSE PRECIADO: Good morning. My name is Jose Preciado and I have been a cook in Laguna Cliffs Marriott operated by Aimbridge for 36 years.

At the age of 16, I went on strike in a factory in Mexico to fight for better pay. When I came to the United States things were better at first. But now I can no longer provide for my family on my wages at the hotel. I have to pay 3,500 per month for rent. The cost of car payments, gas, and groceries keep going up.

I am 60 years old. I want to retire. But we have no pension at the hotel. So I have to keep working. All I want is to be able to take a vacation, and enjoy life with my three grandchildren.

So after 44 years, I went to strike in Mexico. I made the hard choice to go on strike again with my coworkers at Laguna Cliffs. We organized the hotel into union in 2020. Aimbridge Security tried to have us arrested where we were protesting at a nearby park.

Now, we have been on strike. We have filed a charge alleging that the head of the security told against who was threatening to attack us that we could do whatever we wanted and he would defend him to the sheriff. The next day, my co-worker, Nelson, who is a housekeeper, was punched in the head by another guest who yelled at her calling her a sexist name and walked back into the hotel.

We have had to deal with this from so many -- so much from Aimbridge at this hotel. And there have been so many news articles about the nasty things they have done to us. As I said, we have filed federal labor charges against them.

CalPERS, this is why it's important that you support workers like us.

Trustees and staff, thank you.

CHAIRPERSON MILLER: Thank you.

Okay. Next, Sal Calleros.

Sal Calleros, come on down.

And then followed by Jeane Wong from WGA, if you would come down as well, we'll take you in order.

Okay. And your time will start when you introduce yourself and begin to speak.

SAL CALLEROS: Can you hear me? Okay.

Good morning. My name is Sal Calleros. I've been a writer member of the Writers Guild since 2007. We've been on strike since May.

I've written for shows such as The Good Doctor, Snowfall, and Silo on Apple TV, and have a personal connection with CalPERS. My sister is an executive assistant in the city of San Fernando, and she's very much depending on CalPERS for her retirement.

So I'd like to commend you all for your leadership and centering labor principles and your governance and investment guidelines.

Quick story about investing. After the last strike, I didn't work for about three years. I worked as a forklift driver. But I kept writing. I invested in myself, with no guarantee that I'd make a good return. Eventually one of my scripts got me a job, and it got me back to work. I succeeded because I did the work.

Now I ask you, are the CEOs who are in Hollywood doing the work necessary to get a good return on your investments? Are they doing all they can to end the strike? Because it doesn't seem like it. These CEOs have cost California 5 billion to date according to the Milken Institute.

Now, what's happening is that they're putting at risk every pension for every participant in CalPERS who depend on it for their future, like my sister.

The production shutdown has also had impact on other businesses, like hotels and restaurants staffed by Unite Here workers who are also on strike for fair contracts.

Now, for us, the writers, the companies know that what we're asking for is reasonable, affordable and absolutely essential for us to continue working in this industry.

Now, they are supposed to go back to the negotiating table this week. And I want to be optimistic. But so far it seems that the studios lack any sense of urgency. Since July, CalPERS board members have been engaging with major media companies to discuss the strike impacts on your investments. And I want to believe that the reason that they're going back is because of those efforts. It's clear that CalPERS has recognized the strong alignment between fiduciary interests of the Fund and of workers in its portfolio companies. And for that, I would like to thank you.

CHAIRPERSON MILLER: Thank you.

JEANE WONG: Hi. My name is Jeane. I am a film and TV writer. I've been a Writers Guild member for five years. I worked on Arrow, Senocat(phonetic) and for Hallmark. I want to thank Director Fiona Ma's office for your leadership and recent letter calling on the companies to negotiate a fair deal for actors and writers.

I also want to thank CalPERS recognizing that investment approaches undervaluing labor is shortsighted. It is inconsistent with CalPERS' mission. Qualitative and quantitative studies have shown that treating workers respectfully and fairly leads to more successful sustainable business. Unfortunately, we are facing employers who don't understand this.

July this summer, week 11 of our strike, we had two WJ members speak to you about the risk our employers were waging on your investment portfolio. Today, week 21, I want to give an update. Workers throughout Hollywood, not just actors and writers, are in solidarity the WJ proposals are reasonable, affordable, and will fix a broken system.

However, our employers, the media companies that CalPERS is invested in, have yet to offer writers a fair deal. Despite the fact that executives continue to say publicly that they want a deal, they have only made one single counteroffer, an inadequate counter, more than a month ago that does not address our core issues. Let that sink in. 140 days, one offer. Is that negotiating in good faith. Meanwhile, us writers are ready and willing to make a fair deal.

As a result, these companies are causing unnecessary pain and damage. In August, the strikes caused a loss of an estimated 17,000 jobs nationwide. Like Sal mentioned, 5 billion to the California economy so far.

Recently, Warner Brothers' discovery announced that the strikes will cost them an estimated 300 to 500 million in profit this year. But settling the strike would only cost 45 million a year. The economic reasoning behind stalling negotiations doesn't make sense. It is leading to risk and harm in CalPERS' portfolio, your portfolio. And everyone here as fiduciaries should be very concerned.

So in closing, we ask to please redouble your efforts in urging these media companies to negotiate a fair deal that ensures stability for their workforce, the industry, and the long-term financial health of their companies and thus your pension fund.

Thank you.

CHAIRPERSON MILLER: Thank you.

Okay. I'd like to invite down Jennifer O'Dell from LiUNA and Michael Ring from SEIU to be our next commenters.

VICE CHAIRPERSON TAYLOR: Two of my favorite people.

CHAIRPERSON MILLER: Yeah.

All right.

(Laughter).

JENNIFER O'DELL: Good morning. Thank you.

This is on?

CHAIRPERSON MILLER: Yes.

JENNIFER O'DELL: Good morning, Mr. Chair and members of the Board. My name is Jennifer O'Dell from the Laborers' International Union of North America.

The laborers represent half a million mostly construction workers across the U.S. and Canada. We have 83,000 members here in this region, 12,000 of which are plan participants in CalPERS. So we want to thank you for your stewardship of our members' retirement security.

We'd like to thank you mostly for pushing for the new labor principles that apply to all asset classes including private equity. We've been leading an effort around PE specifically and the lack of any real standards around that asset class.

One thing we'd like the Board to be aware of as you consider these standards is that last year we raised with staff some issues at CD&R, one of the companies you all invested, about a portfolio company called Feeney Brothers. Feeney Brothers is a gas utility contractor in the Boston metro area. They've been fighting unionization for over two years. Nonetheless, CalPERS reinvested another 500 million in CD&R after we raised those issues.

We've heard that the problems at CD&R are actually more widespread than we previously thought. An example of this is another CD&R portfolio company, Environmental Stone Works, Division of Cornerstone

Building Brands, has a decorative stone installation business that has relied on immigrant workers who report failures to pay overtime, and go back a decade or even more in some cases. We'll be giving the Board and staff some more information about that particular issue soon.

But we believe that Environmental Stone Works, and therefore CD&R, is responsible for millions if not tens of millions of dollars in underpayment for these workers.

For enforcement purposes - and this is the part that I'd like to underline as you consider your new policy - we'd like the Board to consider a policy for PE real estate and infrastructure that prevents the reinvestment into a fund manager's next fund if a manager violates your new principles. Otherwise, the principles are meaningless.

In the case of CD&R, we'd like funds -- we'd like funds of -- staff's assistance in setting up the meeting with them to discuss our concerns with both Feeney Brothers and Environmental Stone Works.

But again the laborers' union and our plan participants would like to thank all of you for really taking these principles seriously. It's a project that I've been working on for the better part of the last five years. And it's very important to us and we really seriously thank you so much for taking our concerns very seriously.

Thank you for your time.

CHAIRPERSON MILLER: Thank you.

MR. RING: Good morning.

CHAIRPERSON MILLER: Turn on your mic.

There we go.

MICHAEL RING: Turn on the mic?

CHAIRPERSON MILLER: Yeah.

There we go. It's on. Somebody magically turned that on.

Thank you, Chair, and members of the Investment committee. Michael Ring with the Service Employees International Union. Good morning to you all. As you know, tens of thousands of SEIU members are plan participants. You'll be hearing from some of them shortly I believe.

I want to thank the Board and the staff for your fiduciary work to ensure CalPERS' investments are grounded and sustainable, repeatable investment practices and policies. CalPERS invests to pay benefits to today's retirees and to workers who have just begun their public service and will not receive benefits for decades to come. In that context we want to offer enthusiastic support for the development and adoption of the labor principles presented in this agenda item.

As a long-term universal investor, CalPERS depends on workers across the economy being able to do their best work without fear of intimidation, harassment, or discrimination so that they can thrive on the job and bring sustainable value to their companies. The rights of workers to a healthy productive workplace aligns with CalPERS' interests.

To share one clear example of this alignment, as some of the Board members referenced earlier, where workers' rights are respected, CalPERS can be sure that you have more accurate data that accompanies business practices. Accurate data from workers will allow you to make better corporate governance and investment decisions, manage risk, and seek out the most sustainable return producing investment opportunities.

Workers having a voice in the job and the secure process to safely bring forward concerns, suggestions, or violations of their rights, health, and safety is in the interests of the workers and of investors like CalPERS as you invest billions of dollars of capital across the economy for decades to come to meet your assumed rate of return consistently.

We appreciate the Board's recognition of this alignment and encourage CalPERS to continue to show its fiduciary leadership and work with its investment partners and all stakeholders across financial markets to contribute to economy-wide labor standards that protect the interests of workers, investors, and plan participants.

Thank you.

CHAIRPERSON MILLER: Thank you.

Okay. The next in person we'll have Pablo Sandoval and Amy Valdez from SEIU. Come on down.

And meanwhile we have a phone caller that I will take if we still have them on the phone. So we'll get started with them as the others come down.

Okay. Caller, are you there?

NICOLE SAMII: Hello. My name is Nicole Samii. I'm a senior research coordinator at United for Respect, a national non-profit focused on raising standards in the retail industry. We've been supporting PetSmart workers for the past three years as they organized to improve working conditions.

I'm here today because CalPERS has a critical relationship with Apollo Global Management, investing over 3.8 billion with the private equity firms since 2001. In July Apollo announced that it will acquire a minority stake in PetSmart from DC Partners. DC Partners has been unable to manage the human capital at PetSmart, with high turnover and understaffing plaguing the company. These labor issues will soon become part of CalPERS' risk portfolio.

Before the deal between Apollo and DC Partners is finalized at the end of the fourth quarter, I urge CalPERS to encourage the firms to meet with the PetSmart worker committee about the issues that impact the company's long-term value.

Workers at PetSmart have repeatedly reached out to DC Partners about these issues but they have been ignored. They have now reached out to Apollo for a meeting but they have also been ignored. Again I think that they will ignore your request.

CalPERS proposed labor principles would include pension funds to -- would include pension funds to engage portfolio companies with ways they're seeking to improve their well-being. Your investment in Apollo puts you in a position to help bring measurable improvement for workers, while protecting the long-term value of the company, which has been -- which can positively impact the investment returns for CalPERS retirees. I urge you to ask Apollo and DC Partners to respond to the workers' request for a meeting.

Thank you.

CHAIRPERSON MILLER: Thank you.

All right. Next, Mr. Sandoval, you have the floor.

PABLO SANDOVAL: Well, my name is Pablo Sandoval. I'm a facility maintenance rep over at DT. I'm a member of SEIU Local 521. You're going to hear from a lot of other SEIU people, so I'm just going speak of some of the stuff I've been hearing as I've been sitting here.

Yeah, I think it's kind of important for us to think about the fiduciary and how it's all about your responsibility to us to give us high investments and what that really means. And, sure, we need high investments. That's great. But what do we need that for? We need that to provide better lives for ourselves and our families. And that's really what we want from you guys is to give us the means to provide better lives for ourselves and our families. And so, when you go and invest in these companies and they do the opposite of that, they take advantage of people and they hurt these people, it's kind of working against what your goal is. And I just think that's something that everybody really needs to think about here.

And that's it. That's all I have to say.

CHAIRPERSON MILLER: Thank you.

AMY VALDEZ: Good morning. My name is Amy Valdez. I'm a member of the SEIU Local 1000 and a CalPERS plan participant. I work at EDD Unemployment as an employment program representative.

I'd like to thank CalPERS Board and the whole CalPERS team for your work to ensure a secure dignified retirement for all of CalPERS plan participants. I want to specifically thank CalPERS Board for recognizing the clear alignment between the fiduciary interests of the Fund and of workers in the portfolio companies in which CalPERS invests. We see the connection between better treated workers and better company outcomes leading to superior pension outcomes.

As plan participants we support the Board and their fiduciary work to protect our pensions. We know your work isn't easy, and we appreciate all that you do as fiduciaries on our behalf.

As a plan participant, we are well aware that over half the funding of our retirement payments come from the Fund's investment returns. We also understand investments that you make must be repeatable and sustainable because you are responsible not only to make payments to our current retirees, but also to recently hired public servants. Basically you're a long-term investor.

With that in mind, we apply -- excuse me -- we applaud the Board for understanding that short-term investment approaches built on mistreating or undervaluing workers are not in alignment with the CalPERS mission. Both qualitative and quantitative data show that treating workers with dignity and respect and honoring their fundamental rights in the jobs leads to more successful and sustainable healthy workplace in companies. Anyone that's ever worked in an organization or company knows that you do better work when an organization actually shows that it cares about you, respects you, and values you. No one works their best for a bad boss. We already know that.

So thank you for the opportunity to address all of you today and for all that you do to assure our retirement.

CHAIRPERSON MILLER: Okay. Thank you.

Next I'll invite Ramona Cramer, Eddie Isaacs, also from SEIU 1000.

Oh, Eddie had to step away. Okay.

Okay. Welcome. And when you introduces yourself and start to speak, your time will start.

MARIA Blaine: Good morning, everyone. My name is Maria Blaine and I'm a member of SEIU Local 1000 and a CalPERS plan participant. I work for the Public Utility Commission.

And I'm here -- everyone has said -- and I'm in support of what has been expressed here this morning. Your work is valuable, and we want to thank you. Workers health is vital for the economy.

So I'm stepping in for Isaac, because he had stepped away. So I'm going to just allow a few words from my sister Ramona.

Thank you.

CHAIRPERSON MILLER: Thank you.

RAMONA CRAMER: Good morning, Chairman and members of the Investment Committee. My name is Ramona Cramer and I am a member of SEIU Local 1000. I am a participant in your plans and I am also an associate budget analyst for the Office of Tax Appeals.

I, like everyone else, wish to commend your work on our behalf and also that of your team because I know it's not easy. You run the largest public fund -- public retirement fund and one of the largest private pension funds in the entire world. You have a great deal of responsibility and you are trusted by those people that you invest with. But you also have a great deal of influence with them.

I thank the CalPERS Board for honoring the labor values of the California State workforce and the labor within California and throughout the world by adopting these principles.

By adopting clear labor principles and holding your investment partners accountable to them, they too will respect what labor can do for them and treat them better, because that is something that you can do for all of labor, not just us.

In that context, I commend the Board for understanding that workers with dignity -- treating workers with dignity, respect, and honoring their fundamental rights of collective bargaining, to free association, to not be subject to discrimination and harassment and the use of child labor is not something that will make workplaces successful. This, at the very least, will cause scandal to the reputation, if not legal ramifications will -- which will hurt the bottom line of CalPERS investments and my investments in you.

If companies respect the workforce, and you help them do this because they're more oriented to the bottom line, then we will all prosper and our investments will be safe.

I thank you for the opportunity to address you, and thank you for everything that you do to ensure labor values, and the promise of our retirement being secure in the future.

CHAIRPERSON MILLER: Thank you.

RAMONA CRAMER: Thank you.

CHAIRPERSON MILLER: Okay. We have an on-line caller. And while we get them queued up, I'll ask Forest Peterson, Tammy Dhanota, and Brian O'Neil from SEIU 521 to work their way down. And we'll take our phone caller while they're coming down.

Okay. Caller, are you there?

WILLIAM MICHAEL CUNNINGHAM: Okay. Yeah.

CHAIRPERSON MILLER: Do you have those --

WILLIAM MICHAEL CUNNINGHAM: Can you hear me?

My name is William Michael Cunningham. I'm an economist based in Washington DC and hold an MBA in finance in math and economics, both from the University of Chicago. We are in the spring-fed pool for non-fiduciary investment consultants.

In 2015, we created a model that detailed how environmental issues impact stock prices, quantifying the impact environmental factors have on stock prices using several statistical techniques. We have now turned our attention to the impact of labor principles on stock prices. Our analysis strongly suggests that investors in publicly traded companies must not only recognize but quantify the impact labor and environmental incidents and issues have on a given firm's ability to use company assets and therefore thereby generate revenue and profit.

The conclusion of our research is

straightforward: Fair, rational, labor and environmental policies lead to higher long-term returns.

Thank you very much.

CHAIRPERSON MILLER: Thank you.

All right. And on to our speakers.

Forest Peterson.

FOREST PETERSON: Thank you.

Honorable Board, I am in support of the proposed alignment between the Fund and of the workforce in the Fund's portfolio companies.

My name is Forest Peterson. I hold a PhD in civil and environmental engineering from Stanford Engineering, where our focus is on public policy of infrastructure development. In that role, I was the first labor standards investigator for Santa Clara County where I dove into public works and policy enforcement.

As a countywide investigator, I'm a member of SEIU Local 521 - that's the Service Employees International Union - and thus a CalPERS plan participant.

Thank you for taking up this important task to balance the Fund's sustainable long-term goals.

As I saw in my labor standards research, frequently short-term investment approaches are built on mistreatment. That is a global pattern, be that unpaid brick kiln workers in Bangladesh or unpaid silvery tower construction workers in San Jose, California. It is the same. Profit on the back of the workforce is not sustainable.

And both my research and as an investigator, I've seen how important it is that companies treat their workforce with value and respect, that companies that CalPERS invests in are key industry employers, and that means CalPERS has a key lever in how the workforce is treated.

One of the key mechanisms for workforce value and respect is the collective bargaining process. Key to that is companies do not oppose the bargaining process. This example is no better demonstrated by a comparison of the California union representative highway construction workforce and the precarious and unhealthy condition of the highway workforce in states that do not have a united workforce, because of hard fought protections upheld by unions like the laborers. As a concrete laborer myself in LiUNA, I worked to a PhD, where I brought the workers' understanding of labor standards, the civil engineering research would led to helping fun -- found the labor standards enforcement office. Whereas the investigator, I am now protected by the hard fought protections upheld by SEIU.

One thing has stood out: All workers need labor standards.

Data is on your side. It is time to invest with employers that uplift the workforce along with fund returns.

Thank you.

CHAIRPERSON MILLER: Thank you.

You have the floor.

TAMMY DHANOTA: Good morning. My name is Tammy Dhanota. I'm a member of SEIU Local 521 and a CalPERS plan participant for 30 years, and I'm still too young to retire. And I currently work for San Clara Valley Transportation Authority as a public communication specialist.

Today I specifically wanted to thank the CalPERS Board for recognizing the clear alignment between the fiduciary interests of the fund and of the workers and the portfolio companies in which CalPERS invests. As plan participants, we are well aware that over half of our funding -- half of the funding of our retirement payments comes from the Fund's investment returns.

I come from a family of union members. My sister and brother-in-law are CalPERS participants from Santa Clara County Probation Officers Unit; and my husband is also a CalPERS participant in AFSCME from management BTA.

I especially want to share that my father is a butcher. He's been a butcher my entire life. He currently works -- he's a member of the USFCW at Lunardi's in San Jose. And I can't imagine him working under the conditions that these workers in Cardenas have described to us today. It's heartbreaking. That's unacceptable.

We should expect better from those we invest in; and not to do so is really embarrassing.

We applaud the Board's initiative to bring forth these clear labor principles today, and as planned participants offer our full support to you in adopting these principles as you invest in our retirement dollars. If the investment world respects workers and the work they do, we can all prosper. If they don't, we are all at risk of having our secure retirement at risk because it is built on exploitation and abuse which cannot by definition lead to the sustainable healthy returns we need to keep our CalPERS healthy now and in the future.

Thank you.

CHAIRPERSON MILLER: Thank you.

All right.

BRIAN O'NEIL: My name is Brian O'Neil. I am an SEIU retiree member. I'm a CalPERS recipient and I'm also a member of RPEA.

I just wanted to thank you for taking this up and for moving this, because I remember, oh, less than two decades ago I worked with Michael Ring and Mr. Dennak in starting these beliefs for CalPERS and now we're evolving and we're improving on them. Which is very, very good for -- not only for the pension fund but for the country at all. I mean right now, as you know, the workers in this country are crying for unions. They want them. And I think that politicians, other people can maybe push businesses, but pension funds can. And you being the biggest pension fund can also work with others to make it even more bigger and pushier and get them to do things.

I am supportive of these initiatives and I hope that these pass and that they are followed through and that you hold the staff and these companies accountable.

Thank you.

CHAIRPERSON MILLER: Thank you.

Next public speaker is Michael Mark from Smart Sheet Metal Workers Local 104. If you'd come down, please.

MICHAEL MARK: Good morning esteemed Board members. My name is Michael Mark. I'm with Sheet Metal Workers Local 104. We cover the entirety of Northern California.

First off I want to say thank you, thank you so much. As a member of a union, my members, we represent families. There are so many families that are part of the

CalPERS Board, and the representation from this pension fund one family leads to a greater good. And by the ability of passing great labor policies such as this, it's increasing the ability for other families to take in some of the benefits that CalPERS recipients actually take care of.

There has been so many talks of different construction projects specifically, and I'm so much looking forward to the Responsible Contractor Policy update next November. But with that, there is -- in my opinion, this is a great start. There is something more that could be done from CalPERS and other government pension funds such as yourselves, but the very first thing is it takes a start -- a start of the building blocks. This is the very start. And I appreciate your time. And again, from all my brothers and sisters who have been here today that spoke, this is a great policy, very beginning; and I'm looking forward to, if there are stakeholder meetings that Ms. Sells explained about, I would like to be a part of. As well as if there's anything -- engagement on the RCP, responsible contractor policies and stuff, because in the end there's a lot of construction managers that don't understand the feedback, the narrative that comes back from your wishes to what they get the middle person and then in the end it doesn't actually get to the construction side.

So appreciate your time. Again, Michael Marks, Sheet Metal Workers Local 104. Our union is one union is that helps make sure that we have great indoor air quality within buildings.

So thank you.

CHAIRPERSON MILLER: Great. Thank you.

Okay. At this point I'd like to take a little break, and then we'll come back -- let's come back in 10 minutes, and we'll continue to get a few more items in before we break for lunch. So a 10-minute break. So we'll be back at 11:12.

(Off record: 11:02 a.m.)

(Thereupon a recess was taken.)

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

CHAIRPERSON MILLER: Okay. Let's get started again here, if folks will take their seats. And I think we've got just about all our Board members back.

Okay. I have 11:16. We're going to jump back into our agenda at Item 5B, CalPERS Trust Level Review.

CHIEF INVESTMENT OFFICER MUSICCO: Great. Thank you very much.

Before I get started, could I please invite Lauren Rosborough Watt to the presenters.

CHAIRPERSON MILLER: Yes, indeed.

CHIEF INVESTMENT OFFICER MUSICCO: Great. Perfect. Thank you very much. This on our annual trust level review, and this is the first time we're presenting the trust level review in kind of this new format where we've provided in advance more of an annual report style of reporting so that we could get more into the weeds, hopefully provide more transparency, just more comprehensive approach, if you will.

(Thereupon a slide presentation).

CHIEF INVESTMENT OFFICER MUSICCO: And so what we've done is we've also made a few enhancements to the report by adding some new investment metrics as well as the inclusion of some operational metrics so you can get a sense for some of the behind-the-scenes operations that are required frankly to execute on our investment strategy.

I'll briefly cover an exec summary of some of those metrics, and then I'll have Lauren Rosborough Watt provide the economic portion of the report. I showed that to Lauren. She's been such an incredible resource to us, and so I'm really appreciative, Lauren, that you're here today to take on that piece.

And then I'm going to close out the report with some highlights of the key exhibits within the report and answering any questions that the Committee may have. So I need the exhibits you see here. Do appear in the document, but we thought they're important enough to pull out.

So what you have here is a dashboard. It's an executive summary of, as I mentioned, investment and operational metrics. And I'll just call your attention to a few items. First you'll see that the PERF NAV increased by more than 25 billion, really mostly driven by public equity markets which returned 14 percent. And we'll get into the details of individual segments on the tally.

The PERF was effectively flat for the first half of '22-'23. I think we kind of described as a Tale of Two Cities. We have flat returns in the first quarter and first quarter...

(Technical difficulties.)

CHIEF INVESTMENT OFFICER MUSICCO: I did not plan a rap performance for the event today. Apologies for that.

So first half, flat; second half returned 5.7 percent, bringing out fiscal year performance to 5.8 percent. You'll recognize the 5.8 percent is first a benchmark return of 5.6, for an excess return of 25 basis points.

Returns for the 10-year and 20-year periods where we pay close attention to given we are long-term investors have been at or above 7 percent.

Another measure that the team has been very focused on tracking and building on as we strive to be best in class is really a cumulative value-add or a dollar value-add measure. A dollar value-add is really the excess dollar returns relative to our policy portfolio. Over the past five years, this team has delivered 3.8 billion of dollars value-add. And it was 0.6 billion value-add for this last fiscal year.

The results for any given year for dollar value-add will vary significantly, so we should really be focusing on DVA delivered over longer periods like the five years that I just mentioned.

Another metric we'll point out, total plan volatility, has been relatively stable over the last 12 months and it's in line with the transition to our new strategic asset allocation.

Actional tracking error, which is the allocation and public -- it was due to the allocation and public market strategies remains small at 14 bps compared with the 100 basis point limit. The plan maintains adequate liquidity with 2.6 times covered in a 30-day stress scenario. We've been paying very close attention to that and have improved our framework for liquidity over time, as we mentioned earlier.

The operational metrics at the bottom of the screen again are really just for us to better acknowledge the operation behind the investment numbers and give you a sense of it. We have 283 members on the investment team today managing 10 trusts, which is the PERF and affiliates. The total fiscal operating cost came out to 23.3 basis points on 462.8 billion of AUM, which is really well below CEM peer bench when I came.

Last year the team also accepted an ambitious challenge, around nine strategic initiatives, which I will dive into a bit in the next slide, but I have covered some in my opening comments.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: Then this is just really just to give you -- I'd like to think of it as in-our-kitchen point of view to understand better the volume, if you will, and the complexity of the different workstreams that were managed this year to lead us to our year-end. We had 22 workstreams, which was really 2 to 3 workstreams per each of these nine strategic initiatives, led by one of our -- one of the -- my -- a number of my CIO huddle, if you will.

We had a 147 deliverables that were identified. And we had 85 cross-asset class and program member -- team members who volunteered themselves to make sure that they are part of this sea change in our culture towards becoming best in class.

Not everyone is going to be open to change; which we've said, you know, can often lead to some grumbling. But that was such a small minority. As you can see by the volume and the output that was achieved this year, the vast majority accepted the challenge to be change agents and laid their groundwork of becoming a best-in-class Investment Office. I feel extremely confident that that momentum will continue under the leadership of Dan and the members of my direct reports.

This is a huge culture initiative. But as the team has all bought into, it is absolutely necessary in order for us to deliver our 6.8 percent returns required to meet our pension promise to our members.

As I mentioned, I did already mention it to you the accomplishments in my open comment, so I won't reiterate those. But I did want to point out a few additional ones which will continue to be -- continue to evolve upon my departure. First being really an establishment of an active risk innovation framework. A lot of this culture change is about us being understanding and being comfortable on taking more active risk. And so the team has made good headway into starting research projects and leaning in -- more into areas where we could be taking more active risk.

We also really leaned into co-investing on a fee-free, carry-free basis, and started to access deal flow that we historically were precluded from. A lot of that has to do with the brands we've been building in the market that we are great partners for our other capital providers, and we're seeing some great traction there.

We forged deeper strategic relationships really under an initiative that Dan Bienvenue has been leading with a handful of partners that have scale, and we have a number of those exciting strategic relationships well on their way. Many of those are cross-asset class total-fund related, and so should have a real impact on our investment strategies.

Fourth up I'd say -- I'd like to highlight that we're in the early stages of defining a new data and text strategy. We know that topics like AI, for example, are top of mind for all organizations and ours is absolutely one of those. So thinking about how we establish the appropriate tech and data strategy for us to be successful in the future not only just for our regular way business but to remain competitive.

And, finally, just operationally, really a shout-out for the successful execution of the strategic asset allocation. This Board approved a new SAA back in

November of '21. But the execution of that strategic asset allocation was really just started as of July 1st last year. So this last fiscal year you'll see the fruits of the labor of that operationally very intensive execution, including everything like the 20 billion in emerging market debt, as well as our private credit program which we'll touch on a little bit more.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: So on the topic of SAA, as this Board and investment team are well aware, one of the single most important decisions that gets made with the Board and the investment team is setting a benchmark asset mix and having a reasonable probability of achieving our target discount rate over the long term. Asset allocation time horizons spans decades or more, which is why as long-term investors we really are focused on longer-term returns versus the one year. Annual returns could vary significantly from the discount rate. But as you can see on this chart, over a 10-year horizon returns do become steadier, though still modestly varying over time. If we had superimposed a 20-year look-back you would have seen an even smoother line here, which is why it's so important for us to be focusing on long-term returns but also setting our strategy up for success for the long term.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: Next up we are going to run through a series of slides related to the economic portion of the report. And that's where I'd love to invite Lauren to carry on with the presentation and then I'll return.

Thanks, Lauren.

INVESTMENT MANAGER ROSBOROUGH WATT: Thanks, Nicole.

Good morning, everyone. Once again it's a pleasure to be here today. Lauren Rosborough Watt, investment officer in the CalPERS Investment Office.

So as Nicole said, my role is to provide the macroeconomic and market backdrop, the drivers of the returns over the Fund's returns and also asset returns more generally over the past year, and to discuss the balance of risks looking.

So what do we -- what are we seeing going ahead?

So looking back over the past year, a notable driver of returns was the realized macroeconomic activity compared to expectations. And this expectations is priced into assets prices today. And as those expectations adjust, so do asset prices.

So recall the start of the last fiscal year, the Russia-Ukraine conflict was relatively recent; and market participants expected a more difficult time ahead, but the size, the duration, and the speed of that was largely contested at the time.

Through the third quarter of 2022 some of the more vulnerable smaller emerging market economies were slowing markedly as a result of higher food and energy prices in part due to the Russia-Ukraine conflict and rising borrowing costs; and analysts overwhelmingly expected Europe to fall into recession. So on the chart there, that blue solid line is expectations as formed a survey by consensus economics of professional forecasters as their expectations over time for 2023 and economic -- real economic activity for a number of countries.

So you can see their expectations were that Europe was going to fall into a recession both in the end of 2022 and into 2023, and you can see that blue line falling below zero.

Inflation in the UK was running double digits and real activity deteriorated rapidly in Q2 of 2022, and that was a surprise for markets, not long before what was now known as the gilts crisis where the UK 30-year bond yield surged 127 basis points, or 1.27 percent, in a matter of days. And that was amplified by private asset managers and funds selling.

So you can see on the black dotted line there, the bottom line, that expectations for UK real economic activity for 2023 were influenced by the current events that were occurring in Q3 of 2022. So that October to December period you can see those expectations for growth being revised lower.

Then in March of this year, the U.S. experienced a mini-banking crisis when Silicon Valley Bank and two other institutions went into insolvency. And in the case of U.S., which is the black solid line rising into Q1, you can see it's stalled in Q1 as these events transpired.

So I point out these events to highlight the frequency of negative events that impacted on the global economy last year, which in turn impacted on expectations for growth for this year.

I'd also like to highlight that these expectations were not met. And activity ended up better than expected, and this bolstered the returns in particular of gross assets over the fiscal year.

Next slide, please.

--o0o--

INVESTMENT MANAGER ROSBOROUGH WATT: So the question then is why were these return weaker expectations not met? And on each of the occasions that I spoke to you before, rising uncertainty was responded to by policy intervention. And you can see here there are two lines:

a blue line, which is an indicator of volatility in the share market with VIX index; and the gray line, which is an indicator of the volatility of the bond index there on the right-hand side.

So in Europe EU member states pledged over 600 billion U.S. dollars to support households and businesses, which in return reduced their heating and electricity costs. The international monetary fund rapidly provided debt structuring support for fragile emerging market economies. The Bank of England stepped in and intervened in the UK government debt market. And the FDIC treasury and the Fed here provided support for financial institutions in the U.S.

So consequently these pockets of volatility and that volatility of those lines rising fell quickly, and you can see that. I've signaled that with some red arrows facing down.

From a macroeconomic perspective, the support provided a cushion to growth; and this allowed households to feel confident to continue to consume or spend, and also businesses and firms to be confident to employ and not to lay off staff.

The official liquidity programs that were put in place to support the global economy over the past year are a timely reminder not to underestimate the power of policy actions on market outcomes. And we certainly saw the same thing during COVID.

But that wasn't the only reason. Economy's demonstration of greater flexibility than anticipated. Europe had a relatively mild winter. It wasn't as cold as anticipated. And notable event risk in the U.S. case, the debt ceiling -- limit or debt ceiling negotiations that occurred into the end of this fiscal year were quickly resolved.

And next slide please.

--o0o--

INVESTMENT MANAGER ROSBOROUGH WATT: So what happened is economies demonstrated greater strengths or resilience that was anticipated.

So in terms of what this means for asset returns, the first half of the fiscal year, as Nicole mentioned, showed modest returns as weaker expectations going into the end of the year impacted on asset prices. Whereas in the second half growth assets in particular appreciated strongly. And, for example, in the red circle there on the right, expectations for current earnings moved higher, so they were less negative future expectations -- expectations of future earnings, so into 2023 were modest once again, less negative; and this boosted equity returns and tightened credit spreads.

In addition, in equity markets a narrow group of tech-related companies performed very well and that pulled the overall index higher.

However, not all asset returns over the past year performed as well, and areas such as in -- real assets were impacted by the higher cost of capital and a structural shift in the office sector. Increases in the short-dated interest rates by the Federal Reserve here also pulled long-dated interest rates higher; and when yields go up, prices on bonds fall.

So looking ahead, central banks have indicated the synchronous increases in interest rates has largely passed. Most developed market central banks have indicated rates are at or near their peaks. And some emerging market central banks have started to reduce interest rates as disinflation pressures take hold.

For now, financial conditions are a drag on growth, but perhaps not considered exceptionally tight here in the U.S. compared to history. Now, that lends towards this soft landing narrative, the idea that the economy can slow but not suffer a recession as it normalizes.

While interest rates are -- as illustrated in the chart above, are back towards recent historical averages - and you can see that with the red arrow I have there - I do want to highlight two points. And the first one is that the pace of rate hikes was very rapid. And this takes time to impact on the economy. So we can expect this impact has not yet fully been felt.

The second point is that the period of very low interest rates - you can see there were -- interest rates were actually near zero - price of the recent rate hikes is very important. Now this period was accommodated by modest levels of debt burdens. However, during the pandemic, these debt imbalances have worsened in particular at the sovereign or the government fiscal level globally. And now we have a high cost of capital, and that's going to act as a drag on fiscal support going forward.

Now while the policy, that support we've experienced over the past year, has been a positive impulse to real economic activity around the word, and therefore asset prices, I do want to highlight that the need for this support sort of shows that there are outstanding vulnerabilities in the global economy as asset prices normalized and the global economy normalizes following the pandemic and the post-pandemic recovery.

So our assessment as a result is that the balance of risks to global growth remain to the downside looking forward. There is less uncertainty than during the pandemic; and I've spoken a lot about uncertainty in the last two years with you all. So there's certainly less uncertainty than during the pandemic, but more uncertainty than prior to 2020. Uncertainty and volatility are persistent. They're very highly persistent in their impacts on asset returns. And the distribution of growth outcomes looking forward remains wide.

Thank you for your time.

CHIEF INVESTMENT OFFICER MUSICCO: Thank you, Lauren.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: So we'll turn our time now to taking a look at our segment total returns. As mentioned, equities performed strongly in the fiscal year, while other assets were mixed with their fiscal year performance driven by public equity which returned 14 percent. If we break down further, looking at the segment -- individual segment returns, the cap-weighted segment significantly outperformed all other segments for the fiscal year with a return of 16.7 percent. The income segment fiscal year performance was mixed, with Treasury returning negative 5.6 versus high yield's return of 9.1 percent.

The private asset fiscal year performance was also mixed, with private equity and real assets respectively returning negative 2.3 and negative 3.1 percent versus private debt's performance of a positive 6 and a half percent.

Zooming out to the longer 10-year period, as we mentioned earlier we like to pay close attention to, all asset class had positive contributions.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: Taking a look at where our excess returns have been coming from, although private assets comprise about 20 percent of PERF -- 20 to 30 percent of PERF NAV.

Those programs account for the majority of one-year access returns and nearly 50 percent of the five-year excess returns The largest driver of excess returns for one- and five-year periods is private equity, withe the five-year period being significantly impacted by private equity's more recent outperformance.

Private asset's excess return performance is best evaluated over longer periods as over the short-term variations and valuation approaches between the assets and their benchmarks can dominate.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: Next we'll turn to highlighting the PERF allocation activity. As I mentioned before, this was a large operationally challenging activity that took over the past fiscal year but with great success.

The fiscal year saw some fairly significant changes to our allocation and portfolio construction. The changes you see highlighted here were largely made to execute the new SAA adopted by the Investment Committee the prior year.

Beyond the portfolio exposure changes that we made, the work represented here aligns with our ongoing effort to build capabilities along the themes of innovation and resiliency, two areas to highlight. We continue to invest in building our capabilities to deploy capital into private markets in a cost-efficient manner. I'd like to highlight that the private debt program started just a couple years ago as an incubated strategy under your opportunistic program. It's now one of our core private programs. Tremendous amount of work done by Jean and team over the past short period of time.

And private equity continues to expand its co-investment efforts in a more cost-efficient channel for investing in the asset class, and over this last year committed 6.4 billion to co-investments. So some great progress there.

We also continue to invest in improving our total fund management capabilities to support the increasing complexity of the opportunities that we are pursuing. The introduction of modest strategic leverage represents an expansion of our tool kit to allow for greater use of diversifying strategies. Leverage is a tool that's always been implicit in the asset classes we invest in. But having it at this total fund level simply gives us more flexibility to consider different allocation strategies to improve diversification.

Similarly, we're continuing to refine and improve our liquidity and financing processes. The repo funding example highlighted here is not actually about borrowing more but about allowing us to access the less liquid parts of our public portfolio as collateral for existing borrowing, therefore increasing the resiliency of our liquidity operations.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: Now I'll just turn to some more details on our portfolio versus where we are versus the targeted long-term strategic asset allocation weights.

We're largely in line with the SAA targets other than private debt, which I said -- which I explained is a new program that we are ramping up to with great progress and momentum being made; and the implementation of strategic leverage we're implementing in a very measured manner given where rates are today.

Lastly, we do continue to believe that there are significant opportunities across all of our private market portfolios, and we expect to see continued growth in those allocations within the leeway that we already have in policy. That said, we're also doing a bunch of work to review -- to review those allocations which we would be bringing forward for future strategic asset allocation discussions.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: With respect to our private market program building, we want to just to provide this chart to give you a sense of the current outstanding commitments. And this represents a result of work that's been done to underwrite managers and funds both in the current and past years. This is a cumulative snapshot.

The total unfunded commitments to private assets as of June 30th, '23 is 66.7 billion, which is an increase of 15 and a half billion, demonstrating the activity that we've had in the past year. It was versus the fiscal year value of 51 billion last year.

Liquidity to fund outstanding commitments is maintained -- is maintained by retaining sufficient capacity in the designated public asset segments, which was systematically sold down as commitments are called. So said differently, we're able to fund the private markets by selling down the public markets. And for that activity we have ample support to support this level of commitments, which is why we feel comfortable that as opportunities present themselves in the near future to lean more into private markets, we feel very confident with our -- the position of our liquidity.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: Moving to a more sober note. We often show this slide just as a good reminder that our portfolio remains very exposed to growth risk and is highly co-related to equity markets.

In some sense, all of this talk, all of our efforts to increase what we're referring to as value-add is really to identify compelling private -- by identifying private market opportunities. Implementing new asset classes and strategic leverage, et cetera, are not only about increasing returns, but it's really to try to decrease this reliance on equity and growth premiums. We're looking for new ways to add dollars value-add.

What you see here is a very rough long-term historical simulation of our current asset allocation, which is the blue line, against the equity market, which is the red line. The point of this chart is to see that by and large even after the changes we've made when the equity market has drawn down in the past, our current portfolio would also have been expected to draw down. However, the level of drawdowns is generally lower than the equity markets, which reflects the diversification and the absolute -- the lower absolute risk level within our program.

Part of being a long-term investor means being prepared for this type -- these types of scenarios that we've already seen transpire in global markets historically.

And of course the next drawdown will inevitably be different than any past experience. But we should not be surprised when it comes, as Lauren has pointed out, and be prepared to stay the course on our strategies. And I think what we learned during some of that look-back work we did over the past 10 years, where we've been harmed most is when we've panicked and pulled out a program thinking more from a short-term perspective rather than wearing our long-term lens.

--o0o--

CHIEF INVESTMENT OFFICER MUSICCO: To end just -- to end on more of a forward-looking note, we refer to these as cone charts, and it's really a way of putting our cumulative returns versus our expected returns into perspective.

While it is to be expected to have drawdowns, and year over year we may not earn precisely our 6.8 targeted returns, if we successfully execute on our strategic asset allocation, what this cone chart is showing is that our longer-term expectation is to generate the returns we require to meet our pension obligations.

And with that, I'm going to pause and open up to any questions that the Committee may have. And I have our entire team here ready for those questions as well.

CHAIRPERSON MILLER: Okay. Thank you. Thank you all. Thank the team. And I really do -- this new format, this new approach to presentations, yeah, I really like it. And I think my colleagues probably share -- share that view.

So first off I have Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes, thank you.

Thank you, Nicole, for your presentation. And thank you for -- both of you guys for this information.

I want to go back to the -- to page 239 of 5 -- 522, the trust level PERF metrics as the matrix part of that. So I -- what I'd like to elaborate on as -- you mentioned on the operational metrics that there was about 283 filled positions out of the 344 of the total.

CHAIRPERSON MILLER: Page 2, guys.

COMMITTEE MEMBER PACHECO: Page 2. Sorry. Page 2 of Page 15. Excuse me.

So -- and from my math, it seems like there's 61 vacant positions right now.

So can you disc -- can you discuss what is the process being made in recruiting and retention of these investment folks so that we can get them -- we can get our whole process going on.

Thank you.

CHIEF INVESTMENT OFFICER MUSICCO: Yeah, absolutely. We've been working extremely closely with our partners in Michelle Tucker's area to really -- and it's really a part of our broader people in talent and culture strategy. And so what we've done is we've gone back and identified where the priority positions that we've not contemplated, and additions to what resources have we identified historically. And we've set out on a very ambitious and ongoing recruitment effort. We had some rapid recruitment successes. Again, that was a Michelle Tucker and team amazing effort, if you will, that we really benefited from. And in addition to that, each of the asset classes has been working extremely hard within our talent team to go out to market.

I think we've been having some good success and some good traction. But it's a tough market right now for recruiting, and I would say that we have made sure to identify if there were any obvious gaping areas that require -- that would present a risk, and we've made sure to backfill that through oversight and succession planning bringing folks up. And so we feel very comfortable from a risk perspective that the current operations, knowing what we have in the pipeline with those who were to start. But we do have, you know, great ambition to be filling more for that future growth, and so we're just trying to get ahead of it.

COMMITTEE MEMBER PACHECO: And that's something that we're -- our timeline is sometime soon, then.

CHIEF INVESTMENT OFFICER MUSICCO: Absolutely. Sea These are -- this is an ongoing -- we think of a recruitment as a living, breathing exercise; and so each of the senior members are very actively engaged in recruiting right now.

COMMITTEE MEMBER PACHECO: Fantastic. Thank you very much.

CHIEF INVESTMENT OFFICER MUSICCO: You're welcome.

CHAIRPERSON MILLER: Okay. Next we have President Taylor.

VICE CHAIRPERSON TAYLOR: Hi. Thank you, Nicole. Thank you very much, both of you, for your presentations.

I wanted to move to page 3. So I really appreciate this. But as you were explaining it, you were going through each of the nine streams, and I was getting confused because it's not here. And so I kind of had a couple of questions.

In active risk you said you were doing a research project. What is that going to help us learn and move into?

CHIEF INVESTMENT OFFICER MUSICCO: Sure. So let me elaborate on that.

As I mentioned, at the start when we were looking at the metrics, we've historically had quite low tracking error, quite low active risk in our program, in our public market programs. And so -- and historically a number of years back some of the active management strategies within public equities, for example, were removed or shut down. And so what we've been doing is a real concerted effort to think about what would be the benefit of bringing back online some of those active equity strategies, for example. But also to be, you know, more diligent at looking at additional active-risk-type strategies.

So where can active risk come from? It can come from simply doing more of the co-investing we've been talking about. So making sure we really understand what impact that type of activity has from an active-risk perspective. Or it could be looking at the excellent resources we have, for example, in fixed income, and are there opportunities in that area to do more active strategies versus passive strategies. And so that's really what that ask -- active-risk innovation has been about.

The interesting thing about that initiative is we've basically just put it out as an open almost context to the team. And we just had so much tremendous excitement and people self-selecting to really lean in and do work off the side of their desk, if you will, to think up and to come forward with really interesting active risk programs or strategies that they've probably been thinking about for sometime.

So I was really proud to see the momentum there; and I'm certain when I'm out of the chair, you'll start to hear more about some of those great initiatives.

VICE CHAIRPERSON TAYLOR: So, and we're looking at the active risk, these types of things, not just in the private market but also in our public --

CHIEF INVESTMENT OFFICER MUSICCO: Across -- yes, of course.

VICE CHAIRPERSON TAYLOR: Great.

And then I had a question for -- hold on -- you on -- where did it go?

Our asset liability management and our strategic asset allocation, you said - and I'm -- I could have heard it wrong, so I want to make sure I didn't - you said that we just started implementing it beginning of last fiscal year. So that would have been -- so where are we right now? So that would have been July of 22?

CHIEF INVESTMENT OFFICER MUSICCO: So I was referring to the new strategic asset allocation or the asset mix that this Board --

VICE CHAIRPERSON TAYLOR: Voted on, yeah.

CHIEF INVESTMENT OFFICER MUSICCO: -- voted on in November of '21. And the official start date of that SAA implementation was as of July 1 last year.

VICE CHAIRPERSON TAYLOR: Last year. Okay.

CHIEF INVESTMENT OFFICER MUSICCO: Um-hmm.

VICE CHAIRPERSON TAYLOR: That's where I was getting --

CHIEF INVESTMENT OFFICER MUSICCO: That's correct.

VICE CHAIRPERSON TAYLOR: -- a little bit confused.

CHIEF INVESTMENT OFFICER MUSICCO: Yeah.

VICE CHAIRPERSON TAYLOR: So '22.

CHIEF INVESTMENT OFFICER MUSICCO: And every two years we come forward with a gut check, a checkback. But you can assure that behind the scenes we're always, you know, being mindful of where we are. And so there's already tremendous work being done so that we're prepared to come forward and give you a sense of where we think different opportunities may be or where we may want to lean into some of the leeway that we already have within the policy.

VICE CHAIRPERSON TAYLOR: Great. And that was -- that's November, right?

Yeah, that's what I thought. That was --

CHIEF INVESTMENT OFFICER MUSICCO: Correct.

VICE CHAIRPERSON TAYLOR: And then I wanted to ask you, are economic portion -- the macroeconomic view, you had mentioned a couple of things that were impacting us that stood out to me. One was the debt ceiling fight that, you know, might have -- it ended up being short-term, so yay. But are we looking at the future for this current budget fight that may shut down the Government? Is that something we're looking at including in this? Because it's going to happen like this month I think or next month.

INVESTMENT MANAGER ROSBOROUGH WATT: So there is a -- and the end of fiscal year funding is September 30. And there are currently negotiations and discussions as you can see in the news media. When we look at market commentators, who are experts and focus on this, they don't anticipate a long shutdown -- government shutdown as of September or into October. But there is a chance that there will be a shutdown later on this year or they anticipate that there is a chance of a shutdown later on this year, because the Fiscal Sustainability Act, the agreement post the debt ceiling takes into effect as of next year when they discuss Fiscal Year 24 funding. And there's a differing view between parties around what that might mean. But there is within the legislature some spending limits for next year, and that's what's going to be up for discussion. If that's not up for discussion -- or, sorry -- If that doesn't pass, if that's not agreed through the Senate, then there is the chance of a shutdown later on this year.

VICE CHAIRPERSON TAYLOR: Okay. So that will impact also our overview, right?

INVESTMENT MANAGER ROSBOROUGH WATT: So the impact, the estimates on growth are anywhere between 0.1 to I think 0.2 percentage points of annual GDP per week. So it's not huge. But the longer it goes on, the more likely the larger that gets.

I think one of the concerns that the market had in particular going into the debt ceiling negotiations for this year was the what if -- in terms of a debt ceiling, what if the government then effectively runs out of cash. And this isn't the same situation. So it's simply a -- government employees or federal employees will not be paid until an agreement comes through. Regardless, an agreement will occur, because the law states that if an agreement isn't made, then there are contingencies in place. And so it's just simply a period of a bit of uncertainty. Perhaps less market concern or uncertainty than what's caused with the debt ceiling negotiations.

VICE CHAIRPERSON TAYLOR: Negotiations.

INVESTMENT MANAGER ROSBOROUGH WATT: Correct.

VICE CHAIRPERSON TAYLOR: Okay. Thank you.

Oops. Sorry.

CHAIRPERSON MILLER: Okay. Next I have Director Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

Nicole, I'd like to explore specifically the private debt and your belief in terms of what kind of growth potential exists in that area and any impediments for us to address opportunities there.

CHIEF INVESTMENT OFFICER MUSICCO: I can start off, and then maybe I'll have Jean come up. She's the one who's overseeing the program.

I'd say right now we are -- we've been very pleased with and have been very opportunistic to be leaning in as best we can into the private debt market. Jean can speak to just banking. Activity generally speaking in the syndicated loan market has pretty much dried up, and so it's presenting to us tremendous opportunity to be leaning more into this program overall.

I'll invite Jean up so that -- she's been really leading the charge on a tremendous effort to make sure we are taking advantage of the market opportunities right now.

MANAGING INVESTMENT DIRECTOR HSU: So back in March we talk a lot about like the public market has been shut down for the more levered companies. And then debt -- then the private debt is taking the old public market growth.

And then right now you see one more things which is happening is that the bank is retreating, right. It's not only on the -- not only on the -- like originated in the sale side, but it's also on some of the banks. They're on the balance sheets. They cannot hold it, you know, their assets. So you are seeing the activity side, you know, being shut down. And then they're starting to coming back, try to make fees on that.

On the other hand also CT, the asset balance sheet holding size, is retreating. So this creates another opportunities for like private lenders like us. The issue is these levered -- very levered companies, they are paying a very high interest rate right now, because you see in the private debt side told many, many times is folding rate -- the majority of them are folding rate based. So if you think about like the underlying base rate, SOFR rate, is like 5.3 roughly, right? And then your spread on these loans are like SOFR plus, let's say, you know, 575 to 625 spread. Adding together, the asset itself is like rendering around like 10, 11 percent.

So think about the company is paying a 10, 11 percent interest burden is very tasking on the company. So how long can they hold on to that? Can they have a revenue and an income which is growing faster than whatever the interest rate is growing -- the interest rate burden is growing? I think that remains the key.

So far, the default rate has been pretty benign in giving this high interest rate. But the key is that can the economics grow out of this inflation, can the company take advantage of like growing their top line and then controlling their costs and, thus, be able to continue to pay this interest? I think that remains to be something that we want to be very cautious about.

Overall I will say the opportunity is plenty, because right now even the refinancing has been done by private debt. Which was supposed to be like buy -- like public market. Like, for example, not long ago the biggest private debt -- debt transaction in U.S. history is a 5.3 billion transaction. I would never have envisioned back in March that, you know, there will be like a 5.3 billion deals to get done by the private lenders.

You remember like back in March we were talking about, oh, the past, you know, half year we see like 10 more than one-billion-dollar transactions. It has leaped to 5.3. Yeah.

So you will see this dynamic. There are opportunities. But we want to be very cautious in, you know, doing the deployment and in very, very selective in like which manager that we work with in order to have a better credit selection.

COMMITTEE MEMBER MIDDLETON: I appreciate the answer and I appreciate the direction you're going.

Is there anything you need from the Board in order to be able to execute this policy?

MANAGING INVESTMENT DIRECTOR HSU: I think that we are in a pretty good stage right now. And then our team is -- we're not able to get the -- like the people that we want. But we are able to start it getting some like more junior folks that we can train and then we can grow internally. So I think in this environment, as Nicole said, that it is not the easiest environment to get the experienced people. We will do a different strategy trying to build internally and then go from there.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

CHAIRPERSON MILLER: Okay. I'm not seeing any other requests to speak from the Board.

So I'll thank you.

And at this point we -- yeah. So we'll have our CalPERS Trust Level Review Consultant Report. So I'll invite up Wilshire and Meketa.

(Thereupon a slide presentation).

TOM TOTH: Good afternoon. Tom Toth with Wilshire Advisors.

Staff has covered the fiscal year results and economic context, so I'd ask the Board to turn to Item 5C, Attachment 3, which provides Wilshire's qualitative review of INVO's fiscal year activities.

I'd like to cover a few primary points that are particularly relevant today.

Past Wilshire reviews have highlighted the importance of staff's stability, as a successful investment program requires a true long-term investment horizon that comes from a consistent and enduring investment philosophy.

Over the past 18 months, we have seen positive trends in the investment culture, and it's important that staff continue to build on those trends during the search for the next CIO. The nine strategic initiatives that Ms. Musicco just highlighted for the Board aim to move the portfolio forward in key areas. As discussed, this includes improving absolute returns through portfolio optimization and asset allocation, targeted private asset investment, as well as a focus on strong active returns through risk budgeting.

Further, investment in data and technology is necessary to enhance portfolio insights around risk exposures, manage data efficiently, and improve platform integration.

These initiatives remain very relevant for achieving total fund and asset class performance objectives. Importantly, these workstreams are sponsored by senior investment team members and they should be empowered to continue moving them forward.

Lastly, investment governance within INVO runs through three committees that were stood up last year - operations, total fund management, and investment underwriting. This governance aligns with the critical functions necessary to design and build a strong investment program. They are made up of the most senior investment professionals on the team, across market segments, and provide diversity of both experience and insight. We would encourage continuity of this structure, and are confident in senior staff's ability to manage the total fund within this construct.

Let me pause there and see if there are questions before I move onto the Universe Analysis.

CHAIRPERSON MILLER: I'm not seeing any requests to ask questions. Oh, no. There we go.

Director Pacheco.

COMMITTEE MEMBER PACHECO: So, Tom, I just want to make this clear.

Okay. So are we talking about attaching number 4 area right now?

TOM TOTH: I am just about to move on to Attachment 4 for the Universe Analysis.

COMMITTEE MEMBER PACHECO: Then I will wait. Thank you.

CHAIRPERSON MILLER: Okay. Thank you.

So you can go ahead.

TOM TOTH: Okay. On page 3, overall results for the Total Fund for the last fiscal year ranked at the 75th percentile. The context for that ranking is illustrated in the table at the bottom of page 3. As Nicole and

Lauren noted in their comments, global equity, particularly U.S. equity as measured by the Wilshire 5000 equity index, ranks at the first percentile as the strongest performing asset class, while diversifying assets like fixed income ranked at the bottom of that distribution.

On page 6, CalPERS higher than average allocations to fixed income were a drag on relative returns versus peers over the last fiscal year and intermediate time periods as effectively any diversification away from growth risk reduced results.

It is worth noting that while challenging over intermediate time periods, the long-term 10-year returns of the income portfolio - so fixed income - ranks in the top quartile versus peers.

You also note a higher allocation to real estate that was also a drag on peer relative rankings, as the challenges in the sector weighed on results.

Real estate returns were negative over the past fiscal year, while more liquid risk assets rallied meaningfully.

And, finally, globally equity returns ranked at the 71st percentile over the last fiscal year, which dragged on the overall fund-to-peer rankings. As Nicole noted, those captures the shifting dynamics of the outperformance of market cap equity relative to factor-weighted equity over the last fiscal year.

So I'd be happy to stand for questions before we turn it over to Meketa for comment.

CHAIRPERSON MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. And now we're on Attachment No. 4, so I can get some clarification.

TOM TOTH: Yes, sir.

COMMITTEE MEMBER PACHECO: So, Tom, thank you for your comments.

I wanted to talk about the independent verification and verification of the performance examination report on Attachment 4. May I ask what is the significance of the independent Global Investment Performance Standard, or what they call a GIPS report, for the period of July 1st of 2016 through June 30 of 2023, and the relevance of it with respect to our -- to the PERS system?

TOM TOTH: Sure, Mr. Pacheco. He's referring to a -- I'll call it an audit report that covers the calculation and -- of performance for the Total Fund and what is the relevance for the Board. So, the Global Investment Performance Standards is -- it is kind of the benchmark for both consistency and transparency of performance results for both asset managers and asset owners. It is an arduous process that takes a lot of I think time and bandwidth from staff to ascribe to it. And I think the importance from a board perspective is that you can be confident that the numbers - and there are a lot of numbers in your board package - are accurately and consistently reported so you can feel comfortable that the decisions that are being made and the evaluation that's being done around those numbers are true.

So that's the significance of the GIPS report.

COMMITTEE MEMBER PACHECO: Just one more clar -- you said that we do this on -- it takes a long time and a lot of resources.

What was the last time we did this?

TOM TOTH: So this is done on an annual basis.

COMMITTEE MEMBER PACHECO: Okay. So an annual basis.

TOM TOTH: Yes.

COMMITTEE MEMBER PACHECO: Thank you very much.

TOM TOTH: Um-hmm.

CHAIRPERSON MILLER: Okay. President Taylor.

VICE CHAIRPERSON TAYLOR: Thank you.

Hi, Tom.

Real quick. So fixed income did really well for us when we had an up year, it did really poorly for us when we did -- had a down year. So I'm just -- what's your thoughts on that and why -- is it interest this time?

Is it --

TOM TOTH: So, Ms. Taylor, the big change and the challenges for fixed income really occurred because of the diversification benefits of fixed income relative to risk assets did not materialize particularly in 2022, with rising interest rates impacting mathematically fixed income but also risk assets.

I think going forward it's useful to keep in mind that historic correlations or the diversification of fixed income is going to be impacted given the new interest rate environment. But it's our belief that it over the long term will continue to provide -- you know, to serve its strategic purpose, that being downside protection relative to risk assets over a market cycle, income and liquidity for the total fund.

So certainly a topic of discussion as we talk about portfolio optimization and asset allocation around the ALM cycle. But we do not think that it in any way is -- the utility of fixed income -- that it lacks utility in a portfolio construction context.

In fact, with the new environment as we look forward, we would argue that its utility has increased meaningfully relative to where we were during the last ALM cycle.

VICE CHAIRPERSON TAYLOR: Then I had another question on real estate. And we know that our commercial real estate in our bigger cities is having some drag on it, based on numerous factors, one of which being people are not so much in the office anymore.

Do you have any ideas on how we could improve those returns? Are we looking at just holding off on any more of those office spaces and putting money elsewhere? Are we looking at getting rid of the off -- what are we looking at here? Is this a permanent thing?

TOM TOTH: So that is a great question, Ms. Taylor, and certainly I would invite Meketa to provide their outlook as well. But from our perspective, I do think it's been a sea change in terms of the underlying fundamentals for real estate and the demand, and where that ultimately ends up in this post-COVID world particularly for office is a big question mark.

I think in terms of how do you drive improving results, it's probably looking at, let's call them non-core real asset opportunities. That could be in areas like infrastructure, data centers, health care, self-storage as another example. And the challenge I think for CalPERS in particular is finding appropriate opportunities at scale to drive that portfolio going forward. Offices, likely to remain under pressure. There could be the need to invest additional capital to reposition or redevelopment -- redevelop certain properties. And that's -- you know, the underwriting of that has to be done at kind of an individual property-by-property basis.

VICE CHAIRPERSON TAYLOR: Thank you. I will definitely ask Meketa when they come up.

Thank you.

CHAIRPERSON MILLER: Great. Thank you.

I'm not seeing any other lights here for a request to speak. And so I will thank you very much --

TOM TOTH: Thank you.

CHAIRPERSON MILLER: -- for your statement. Very helpful.

And we'll welcome Meketa up now.

Welcome, Steve.

STEVE McCOURT: Good afternoon, everyone. Steve McCourt with Meketa Investment Group. Behind me are Steve Hartt and Christy Fields of Meketa.

Our reports are attachments 5, 6 and 7 to Item 5C. I'll provide a fairly brief review of those reports; and we're available to answer any questions about any information in the reports.

Starting with private equity. Private equity is your asset class with the highest long-term expected returns. And today it represents about 13 percent of your total fund, roughly in line with the long-term asset allocation target.

Your private equity program has achieved its performance objectives over the long term, returning 11.8 percent per year over the past decade; 40 basis points higher than the benchmark; and well above the long-term expectations of the asset class.

Shorter term private equity valuations have been compressed somewhat. After a very strong 2021 and 2022, the one-year return through June 30th was negative 2.3 percent. But for comparison, the three-year return smoothed out over the prior three years is 19 and a half percent per year on average.

So much of what we saw over the last year was a -- was a compression of valuations that had been elevated previous to the last fiscal year.

Importantly, to maintain the progress in the private equity portfolio, your team continues to execute a long-term strategic plan, and a number of areas of that plan were very well executed this past year as has been noted already by staff.

First of all, the amount of capital deployment has increased significant aligned with the now higher target allocation to private equity. Your staff has deployed roughly $15 billion a year to the asset class the last two years.

Secondly, in increasing proportion of those commitments you're going to more cost-efficient vehicles to get exposure to private companies. 41 percent of the capital in the last fiscal year was allocated through no- or low-cost investment vehicles.

Staff has worked to increase the diversification of the Private Equity Program, adding to exposure in venture growth equity in middle market buyout, areas which previous to the last couple of years CalPERS has been somewhat under-represented in the marketplace.

Staff continues to enhance relationship with strong sought-after partners in the asset class.

The program at the end of the fiscal year was invested within all policy parameters and is performing within expectations of -- within your expectations of the asset class.

I'll move on to real estate infrastructure and then we're happy to take questions on any of them at the end.

Real estate is an asset class for you with a role primarily of providing income and diversification. Today it represents about 12 percent of the total portfolio, and the large part of the real assets asset class.

Over the long term real estate's achieved its objectives, returning 7.8 percent per year over the past decade; more than two percent higher than the current long-term expectations for returns in the asset class. It has also generated significant income over this time period.

Near-term returns have been more challenged for the asset class and for your portfolio as a consequence. Largely the consequence of the pandemic and the structural changes and the way that people utilize real estate in the economy today, there's been a significant dislocation in certain real estate sectors, most importantly the office sector, which been noted already.

In the last year your real estate portfolio returned negative 5.1 percent, about 1.1 percent below the return of the benchmark. The three-year average return however was 7 percent per year over that three-year period.

As we've noted before, one of the we think strong protections of your practices within your real estate portfolio is an independent valuation process of your properties which we believe is more conservative than those practices across the industry broadly. So much of the underperformance of your portfolio this year could very well be a consequence of valuation assumptions as opposed to actual performance per se.

We'll know a lot more once the dust settles in the asset class.

The real estate portfolio was invested within all policy parameters. And staff continues a strong focus on core-income-oriented properties in the strategic plan.

Highlighting a couple of characteristics of the industry more broadly and speaking to Ms. Taylor's questions before on office. There continues to be relatively few transactions in many sectors of the real estate marketplace. And without significant transactions, pricing and knowing where the real estate market is today is more challenging than it is when transactions are more -- at a higher volume.

But a couple of notes of importance. The office sector in particular has seen significant write-downs across the industry this year. Which seem appropriate. And most of the information that we receive from asset managers in this space would lead one to believe that we're a good part of the way through the write-downs that are necessary in the office sector. Doesn't mean it's going to turn around tomorrow, but it means a lot of the pain has been felt already.

Secondly, office as a institutional sector of the real estate market has significantly diminished in size over the last couple of decades. There's a chart in the material we put together that goes back to the early 2000s, 20 years ago. Office was a bit more than 40 percent of the overall real estate marketplace at that time. Today, office represents about 15 percent of the overall industry, and roughly that in your portfolio as well. So the impact of office, strong or negative, simply isn't as significant today as it was 20-plus years ago.

And other sectors, like multi-family and industrial, have taken a much stronger position within the industry as a whole.

And I'll summarize as well by saying that outside the office sector, there are other sectors of real estate that continue to have strong characteristics in terms of tenant demand and rental income growth. So the dislocation within real estate is an asset-class-wide, is within specific sectors within real estate.

Final comments are within infrastructure, which is the other component of your real assets asset class.

Like real estate, infrastructure is intended to provide diversification and income to your overall portfolio. Today it represents 3 percent of your total fund and 21 percent of the real assets asset class.

Infrastructure has achieved its long-term investment objectives, having returned 11.2 percent per year over the past decade; 5.2 percent above the return of the benchmark over that time period; and roughly 6 percent per year higher than the long-term return expectations of the asset class.

Near-term infrastructure has been more resilient than both real estate and private equity in this market, having returned 4.8 percent in the last fiscal year and 8.8 percent on average over the last three years. Both above benchmark.

We note, as you noted before, that the benchmark that you use for infrastructure is the real estate benchmark, so it's a little bit like comparing apples to oranges. But nevertheless the returns relative to inflation and other benchmarks that Meketa looks at are quite competitive as well.

Infrastructure continues to be a strong focus of the real assets team, and the portfolio has grown considerably in recent years. In the last two years alone, infrastructure assets as a proportion of your total portfolio have increased from 1 percent to 3 percent. So very large increase particularly in the context of your total fund having increased over those -- that time period as well.

Infrastructure continues to be invested within all policy parameters that you've set forth.

I'll conclude my remarks there, and we're happy to take any questions.

CHAIRPERSON MILLER: Great. Thank you.

Okay. We'll start with President Taylor.

VICE CHAIRPERSON TAYLOR: So thank you, Steven. I know you kind of commented on this, and I know that we a couple of times have already done our write-downs and stuff. So we are probably experiencing the downturn a little quicker than everybody else.

What do you see or what do you think it would take to improve or make it more sustainable in commercial real estate in general? I know that that's the main part we're having trouble with is office space.

STEVE McCOURT: Yeah.

VICE CHAIRPERSON TAYLOR: But there are other problems as well because of the interests rates as well.

STEVE McCOURT: Yeah. I'll invite Christy up to make some comments on the market more broadly.

CHRISTY FIELDS: Thank you. Christy Fields, Meketa Investment Group.

It's hard to know exactly when the marks are going to settle out. But you're right, you've taken several quarters of write-downs, some greater in certain sectors like office, and some less. In fact, this past quarter that we have data for, office was down negative 7.3 percent. Multi-family was down 1.2 percent. And you had industrial at a positive 0.2 percent. So there's quite a bit of variability between the property types in the marks that are happening right now.

And to Steve's earlier comments, some of that's just we don't have a lot of information. The market's not giving us a lot of information right now because not a lot of things are crossing or selling. And then part of it's just the way that private real estate is appraised, how the -- what the appraisal process looks like.

I think your program has performed well historically. That said, there are other property types that heretofore were perhaps too small to access -- CalPERS to access. And those are becoming more appropriate-sized classes for you to explore and probably to step into. And that's just part of ongoing kind of management of your underlying portfolio composition. So moving a little bit away, lightening up in office and retail, you've also had some efforts in that space and strengthening your footings in perhaps data centers perhaps and affordable housing and some other sectors.

So that --

VICE CHAIRPERSON TAYLOR: Don't need affordable housing there. I like the idea.

(Laughter).

VICE CHAIRPERSON TAYLOR: But go ahead.

CHRISTY FIELDS: Well, they're some of the best supply and demand fundamentals there, as we've heard from other public commenters today. Affordable housing is -- we're deeply in need of more affordable housing. So investment there should be sustained for quite a while.

VICE CHAIRPERSON TAYLOR: Thank you.

CHRISTY FIELDS: Um-hmm.

CHAIRPERSON MILLER: Okay. And Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Steve. Thank you for this information.

I just go back to the -- to your comment -- back to your private equity part. Given the effects of inflationary pressure and interest rates and also geopolitical concerns, you mentioned in your comments in the near -- in the near term PE returns have been compressed and evaluations have been sort of in a decline, you know, recently.

What are your thoughts on, you know, PE -- private equity returns and evaluations reversing in the event that inflationary pressure subsides and interest rates perhaps plateau? If you can answer that or elaborate.

STEVE McCOURT: Yeah, I'll make a few comments. And I would like Steve Hartt to come up as well to add any color to them.

Private equity as an asset class saw remarkable returns and appreciation in 2021 and 2022 relative to other asset classes. And so a lot of the compression that we've seen in the last year - and there hasn't been a lot - simply reflects the equalization of valuations across asset classes. Whether or not there's more compression to come, it's hard to know. But you've hit on the major factors that would inform that, which is -- which is economic growth and inflation, slash, interest rates.

Generally speaking, the asset class as a whole modestly benefits from lower interest rates, both in terms of being able to execute deals and doing so at a cost of capital that's lower, but also with respect to valuations, which are negatively impacted by rates that are higher.

So the longer rates remain high or if they go any higher, that's probably a sign that there's additional compression to occur. If we have reached a peak in rates and inflation has been tamed, and 2024 will see a combination of continued economic growth with lower inflation interest rates, that should be a reason for private equity and broader private market valuations to expand from here.

STEVE HARTT: Sure. Steve Hartt, Meketa Investment Group. I'd just add a little bit to those comments.

What we had observed in 2021, '22 and then come down '23, '24, a large portion of that has happened in venture capital and the growth equity markets. Buyouts have been somewhat more stable. To the extent that the pressures on interest rates, et cetera, subside and start to go the other direction, I'd imagine that the growth equity side in venture capital to some extent to show disproportionate appreciation out of the whole private equity area.

COMMITTEE MEMBER PACHECO: Thank you for both of your comments. I appreciate that very much.

CHAIRPERSON MILLER: Okay. No more questions or comments from the Board. So I'll thank you all. You've been very helpful.

And at this point we'll recess for lunch and we'll come back at 1:30 and get back to it.

Thank you all.

(Off record: 12:29 p.m.)

(Thereupon a lunch break was taken).

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

CHAIRPERSON MILLER: We're reconvening the Investment Committee. So we'll jump right back in. And I believe we're at 5D, Global Fixed Income Annual Program Review.

CHIEF INVESTMENT OFFICER MUSICCO: Yes, great. Thank you.

So as is required by our investment policy, this agenda item provides information on global fixed income's role in the overall portfolio, the benefits and the risks of investing in income and the current market environment of the asset class.

And Arnie Phillips is up here to walk us through that.

Thanks, Arnie.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Great. Thanks, Nicole.

Good afternoon, everyone.

I guess I'll start off with a quick -- I ran into our old friend Rob Feckner on Friday. He looked good. He was in good spirits. It was good to see and chat with him. So very unexpected and nice. So...

Probably more enjoyable to talk about Rob than fixed income the last couple of years.

(Laughter).

MANAGING INVESTMENT DIRECTOR PHILLIPS: But that's why we're here today. So let me see if I can --

COMMITTEE MEMBER TAYLOR: Did you golf? That's the question.

MANAGING INVESTMENT DIRECTOR PHILLIPS: He was volunteering at the golf tournament. I was simply watching.

CHAIRPERSON MILLER: Ah.

MANAGING INVESTMENT DIRECTOR PHILLIPS: So, yeah.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR PHILLIPS: So today we're going to go through the fixed income asset class. We'll do a quick overview.

The market environment's been hit pretty well by Nicole and Lauren, but I did have a couple quick thoughts there. We'll go through performance and risk analysis, which has also been hit a little bit, but we'll get a little bit more micro into the actual segments. And then at the end we'll go through some operational updates and some of the initiatives.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So I think it's always good to -- I always remind myself why we're doing what we're doing. And for me it starts with the strategic asset allocation and our role in that. And the one that I always think of and the one that frankly hasn't worked the last couple years has been to be an economic diversifier. I guess diversification means doing something different. And being down the last -- you know, in 2022 and flat this year I guess is something different, but it's not what we're trying to do. But it is part of the role of fixed income; and history says - and I agree with Tom - that, you know, we think at these interest rate levels we can be that diversifier going forward. But liquidity has become more paramount as we put leverage on as we go into more private assets. So that role will continue; and then at the interest rates we're at, we actually can provide some income now.

But for me, whenever I start to doubt things, I come back to why we're here. And those are really the three reasons why.

So originally when I started here hundred years ago we had just a single portfolio. We've now broken that portfolio into five portfolios. We have a U.S. Treasury segment, a mortgage segment, an investment grade corporate segment, a high yield segment, and the new -- to the most recent year, the emerging market debt segment.

Plus we have an opportunistic mandate which we'll talk a little bit about in closed session.

So let's see.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So I do really like the format that the private asset's used. I think it flows really nicely. And, you know, as we go through each of these pie charts you'll be able to get a little bit better idea of each of the segments and how they're diversified or not, how they're built.

So this pie chart just shows that currently fixed income as of June 30th was about 27 percent of the total fund assets.

The biggest change here is our increased use of external managers. We've historically been about 95 percent internally managed. The number's about 78 percent today. We've funded external managers in both our high yield and emerging market debt segments. Simply, we see opportunities in both of those segments. For us it always comes down to identifying the opportunity and then figuring out the implementation. And in both of these cases, given the resources needed, we felt it was best to do them externally. And, you know, with the move to active management in the high yield segment, which occurred July 1st of this year, all of our segments are now actively managed except for the treasury segment, which is largely used as a financing vehicle for the leverage and to provide liquidity.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So Market Environment. Lauren and Nicole covered this quite a bit. Like everybody in the world, we're watching inflation to see if and when that continues to fall.

The -- I guess the data point that is maybe new from when these slides were created - and I didn't hear mentioned earlier - oil is up about 30 percent in the last three months. I think we all see it when we go to the pumps. Especially at the pump, the gasoline can act like a tax for people. And so, we're definitely monitoring that to see how that may impact the economy going forward and if people start having to substitute away from doing something else to put gas in their tank. But a 30 percent rise in 30 months is pretty aggressive.

Jean mentioned the private debt, and Ms. Middleton asked the question. And we do view that as a diversified version of fixed income, certainly the floating rate aspect. And I was thinking as Jean was answering that question - and completely agree with everything she said - one of the things we've been watching is the fallout from the Silicon Valley Bank and the finan -- the banking crisis back in March. And it appears we're going to get more of regulatory environment around banks, more capital required. That's likely to push landing more towards Jean's private debt market. And so I think we'll continue to monitor that. But, you know, Jean mentioned getting a floating rate plus 6 or so percent. That can put a lot of pressure on weaker companies, and so that is something we'll definitely be monitoring, both -- you know, Jean will be monitoring it in private debt, but we'll be watching it in the weaker parts of the high yield market.

And then the last part is: You know, China's economy definitely has slowed, and their property market issues are large. And so we will continue to monitor that to see what that means for the global economy.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So slide 6. This one breaks out our treasury segment. Nicole had some really helpful tips on how to make these slides more impressive. And you'll see it more than this one where -- which the pie chart only has two breakouts. But originally it only had one, showing treasuries, and it didn't -- it didn't really lay a lot of information. But what it does show is our -- our treasury segment, which is passively managed, so it has little to no active risk and low expected tracking error, but it does actually have some tracking error because of the use of treasury futures.

So the benchmark is all cash bonds from seven years out to 30 years. We only have a handful of actually treasury futures that we can use. And so when we substitute cash bonds for futures, we get a little bit more lumpier exposure, and that explains why a passive fund actually has some tracking error. It's very low tracking error and it's facilitating our use of liquidity and leverage in our total fund. But that's why we have a little bit of tracking error and what is marketed as an index fund.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: Did I go too far. I can't see.

All right. So the other risk-free, for the most part, segment we have is our agency mortgage-backed securities segment, also extensively used in our liquidity and leverage program. In a lot of cases, agency mortgages can be even more liquid sometimes than actual U.S. Treasuries, and so our total fund team does use our agency mortgages as part of our financing and leverage book.

The mortgage segment, as the pie chart shows, it's primarily, you know, about 92 percent agency mortgages. So Fannie Mae, Freddie Mac and Ginnie Mae. There are some commercial mortgage-backed securities in there and some asset-backed securities. And so while there's -- those are technically credit assets and have a little bit more risk, they're a very small portion of that portfolio. So this highly liquid segment has very little risk overall.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So you're going to hear the same message on these charts for each of the segments. It shows return relative to volatility. What it doesn't relay very well is if you look at the X axis, the volatility line, the scale's while it looks big is actually very small. You know, 5.0 to 5.1 is a pretty sharp pencil. And so what it really shows on -- and you'll see it in all the other segments too -- is that there's not a lot of tracking error relative to the benchmarks; and we have performance on top of that. So risk-adjusted returns are quite strong.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So this slide shows the different breakouts of tracking error and the different risk attributes. The mortgage segment is actively managed but doesn't currently have a lot of risk in the portfolio, which is shown by the low expected tracking error.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: Then it gets a little more interesting as we get away from our more risk-free segments into our kind of credit segments. So slide 11 here covers our investment grade corporate segment. And you can see now the pie charts actually start to show something different than one or two items.

This one shows at a kind of high level the different industries and sectors we're exposed to. And so you can see, you know, pretty well diversified, the largest piece being the financials, which unfortunately did ding us a little bit in March. But overall, a very well diversified by an industry standpoint segment.

The upper right - and Nicole touched on it, Tom touched on it from Wilshire - that shorter periods can sometimes yield results that we don't like. And, you know, Tom pointed out that income was, you know, on a 10-year basis in the top quartile, but much lower given our duration profile in more recent periods. And I think this IG segment is a -- in that same kind of vein of thinking. When you look at the 10-year and five-year returns, they're extremely strong.

We were defensive this year in this portfolio. You know, Lauren laid out all the reasons why you might be defensive. Federal Reserve raising rates over 500 basis points, inflation, a war - all those kind of things led us to be pretty defensive in this portfolio, and frankly hasn't played out yet. And so that explains sort of the one-year number of down about 40 basis points. We did get hit a little bit through the -- probably half of that through the banking crisis in March.

But overall again, long term, one of the better managers out there; but investing is a lot of "What have you done for me lately," and unfortunately this was the one segment that within this year struggled.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So again, this one shows, you know, our fund -- our segment has had higher returns with lower volatility. But again that volatility measures pretty precise and so doesn't tell me a lot other than the risk-adjusted returns are good over the five-year period.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: And 13 here. So again, I mentioned we were defensively positioned earlier in the year. Given how the economy has performed, how employment has remained pretty strong, this portfolio has been repositioned to a lot more neutral than it was in, say, the first half of the year. And so when you look at a tracking error of 43 basis points, pretty low, because at June 30th we had gotten to a much more neutral position.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So slide 14 covers our high yield segment. So going back to the 2017 strategic asset allocation was when the high yield segment was created. At the time, it was really just trying to harvest the high yield risk premia, the beta there. And so it was run passively, except we tried to cover the transaction costs. And high yield is one of the less liquid fixed income assets, so the transaction costs can be large at times. But as you can see, we've been able -- through the 1-, 3- and 5-year area been able to cover those transaction costs and add some value.

Nicole mentioned this was our best performing segment this year. And it -- but also it -- you know, as we reevaluated opportunities, while it was set up to be sort of passive beta focused in 2017, we think the right positioning in high yield - and you'll see it in EM debt also - is to be more active. And so as of July we moved a vast portion of this segment to more actively managed.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So you will see tracking error -- again, risk adjusted, good -- but tracking error which shows at only 18 basis points in -- at June 30th. There's about three times that today, which is still very low. I think -- we have about 90 percent of the assets now externally managed. In talking with those managers, they're pretty defensive also. And so -- waiting for better opportunities. And so that would explain -- we would expect tracking error to be in the low hundred area. So them being call it 45 or 50 shows they're pretty defensive also at this point.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So EM Sovereign. So this was the new segment, Nicole mentioned it in the trust level review. It was our second best performing segment. It got masked a little bit in the income returns, kind of hurting us in a sense. The first six months of the year, as we were building out this portfolio very large size, we were using a total fund transition account. As you're getting lumpy positions relative to a benchmark, you do it outside of the asset class. It was a very solid performer in the first six months of the year. That performance shows up at the total fund level, does not show up in the income level.

It wasn't going to take our income level from flat to five percent. It was going to add, you know, 10 or 20 or 30 basis points. But some of that performance at the income level was lost.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: So looking at this one, you can see the diversification by global region. Again pretty well diversified. The difference from our old sovereign benchmark, which was all investment grade, this is call it 50-50, kind of half investment grade, half non-investment grade but pretty well diversified geographically.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: Again, looking at the -- because it's an active segment, actively managed and a more volatile asset class in general, you would expect to see higher tracking error. It is higher than the other segments. But has been very well performing.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: Which brings me to the last slide. Well, next to the last slide.

So looking back at the past year, it certainly was a rough year from an absolute return basis. But some of the things that frankly you guys did with the SAA were actually very beneficial. The -- when you look at our SAA, every quarter we go through and our total fund group rebalances. So anything that's done very well gets sold to buy the things that didn't do as well. And so that's been happening since post-COVID when -- you know, 10 years we're at 1 and a half percent, 30 years we're at 2 percent.

As those asset classes were doing well as equities were doing poorly, we were selling bonds and buying equities. And I think that gets lost just because it's sort of business as usual for us. But there is that kind of, you know, sell high, buy low mentality in our quarterly rebalance.

But when I look at what all of you and your predecessors did in 2021 was that the segments that we -- within fixed income that we lowered, which were treasuries and mortgages, were our two worst-performing assets this year. When you look at what did well, which was high yield, which the SAA increased, the creation of the emerging market debt segment, those were our two best asset classes within fixed income.

So the SAA in '21 -- 2021, at least for the current year, was actually beneficial. It lowered our worst performing segments and increased our highest performing segments. So time will tell if that holds longer term, but it was certainly beneficial this year.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: The other area that I -- you know, I'm very proud of is our investment grade analyst team. They did fundamental analysis on these companies. And you'll see on the next slide all the ESG considerations we do when deciding whether to buy a company or not. But that expertise is available to our private assets also. And so Nicole had an opportunity to look at a large check in the private equity arena and our analyst in Lou Zahorak's investment grade team spent a couple months and hundreds of hours helping to analyze that opportunity. And so from a total fund standpoint, I think that's -- you know, what we started working on when Ben got here, we continued with Nicole. Just getting the right people at the table to make decisions. And in this case, we have fundamental analysts that follow sectors that when we get an opportunity in a private asset, it may be just questioning the assumptions of our general partner: Are they being conservative? Are they aggressive? You know, what do we think? Or it could be literally "I like this company" or "I don't like this company."

And so we have been doing that and continue to do that and look forward to doing it. It's a lot of work in addition to a day job, but it's actually pretty interesting for the folks when they get to do it; and I think it's really helpful to the total fund.

And then the thing we're going to be focused on is, you know, the dollar value-add concept and just looking for ways like we've done in private equity -- or in high yield what we did in emerging market debt to just find ways to potentially add more alpha.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: And then the last slide is -- I think there's two more slides actually.

No, this is the last slide.

So what are we going to be doing going forward? So, you know, a lot of the work we do gets supplemented with what everybody else is doing. And so we're working really close with Peter Cashion's team on sustainable investing. We're working close on the ESG project to kind of standardize everything a lot -- you know, it's -- again, for us ESG is sort of business as usual. It's how we look at every company. But it -- we can learn from what the other asset classes are doing too and find a better way to build the mousetrap, and so we continue to do that work.

Strategic alliances, we're -- you know, Dan's leading the effort to get some partners out there that we can leverage their expertise, whether it's accessing their staff, getting knowledge transfer, getting training - whatever it may be - you know, we're looking at that and would anticipate we implement some of those opportunities this year.

And then, you know, the last thing I mentioned on the prior slide, we're just looking for ways to continue to add alpha and take what we knew yesterday and hopefully apply it better today to do a better job.

--o0o--

MANAGING INVESTMENT DIRECTOR PHILLIPS: And then the last slide, which I've now mentioned three times the last slide - this one actually is the last slide - shows the work we're doing in the ESG and the sustainable arenas; and just really appreciate the partnership with Peter's team to do this. We're also trying to leverage external partners. If we don't have to rebuild the wheel on something, there's no sense to do that. So there's a lot of work going on there. But, you know, the sustainable side and finding a way to the net zero '30 and '50 is somewhat new to us. The ESG work is business as usual.

With that, I think that truly is the last slide, so I'll stop there.

CHAIRPERSON MILLER: Okay. Thank you.

I've got Director Pacheco.

COMMITTEE MEMBER PACHECO: Thank you, Arnie, for your presentation on the fixed income.

I want to go back to the market environment slide, I think page five of 21. On the third bullet you said: "The impact on consumer spending following the resumption of the student loan repayment."

You know, I read an article recently over the weekend of the student loan re -- re -- starting up. And actually it stated that it would -- there'll be a drag on the economy.

How would that play out in terms of our -- with respect to our portfolio in the fixed income area?

Thank you.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. And Lauren's probably better positioned to answer. Yeah, I've seen numbers as much as maybe four-tenths to half a percent on GDP if -- in longer term. But I think it's broader than just fixing them. It's really its impact on the overall economy.

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR PHILLIPS: And the area that we're continuing -- you hear that stat that something like 40 percent of Americans can't handle a, you know, 400-dollar surprise payment.

Resumption of a student loan payment will not help that cohort. So we're certainly monitoring that; and again Lauren can answer better. But it appears -- you know, and I think the -- frankly the part we underestimated when we had our defensive position was the amount of fiscal stimulus that came through. You see the monetary increase of interest rates, and it's pretty straightforward that's a negative.

But I think we severely underestimated how much money was put into people's pockets. And it appears at the lower income level that's starting to dwindle. And so if you have that, you know, money in your bank going down, filling up your gas tanks going up, you now have to start paying student debt, it's probably going to matter. And again, probably doesn't matter as much to everybody, but -- but a lot of times the economy moves at the marginal area, and so it's definitely something we're monitoring and it's not a positive.

COMMITTEE MEMBER PACHECO: Right.

MANAGING INVESTMENT DIRECTOR PHILLIPS: And the lagged impact of monetary policy, we may or may not still see that come. But if that comes in addition to this hit to resumption of payments, it could be just another sort of negative to the general economy, which any of our risk assets will be exposed to.

COMMITTEE MEMBER PACHECO: Okay. And so it would be something we would have to be monitoring and constantly. Thank you for that. I just have one more question.

Back on page 21 of 21 under your MBS portfolio, there's something called we're participating a new issuance of high social bond -- for the housing -- Home Ready and Home Possible program.

Can you elaborate a little bit about that program.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. My mortgage guy could do it better.

But Ginnie Mae actually came out today with a program where they're going to start providing more social data --

COMMITTEE MEMBER PACHECO: Okay.

MANAGING INVESTMENT DIRECTOR PHILLIPS: -- which is really helpful, as I think we've all heard through all these -- any time we get into whether it's emerging managers or sustainable, it's getting access to data is often our biggest challenge. So it appears Ginnie Mae's going to help out there.

But a lot of times in the mortgage side the social investing has to do with low income housing access. And so it's something when we're looking at our social impact, we're trying to get more of that data. And if we just own a generic pool of a thousand loans, it's sometimes hard to tell. You can take -- okay, so if Fannie Mae does 18 percent social -- and we could just assume it's 18. But the reality is our thousand loans might have none. So Ginnie Mae's effort to increase this transparency should help us do a better job there.

If it's simply a Fannie Mae, Freddie Mac or Ginnie Mae loan, it -- in essence we can -- those borrowers will have a different prepay profile, which could be advantageous or not depending on what we're paying for the pool. But it's something that -- I won't say we can get it for free, because people will price accordingly. But if it's packaged in something that's guaranteed by government, it's something we can potentially take advantage of. But the first real part of it is getting the data to be able to analyze it. And it's certainly getting better over time. But we're always cautious of -- and I think we've seen it through all of the ESG market, the kind of greenwashing of, you know, it's not really what it said it was. But I -- I think if it's coming from the either Fannie Mae, Freddie Mac or Ginnie Mae, hopefully it's something we can trust.

But new product literally as of today in Ginnie Mae's situation. So it's something we will -- we'll take an eye on. But generally it has to do with low income housing.

COMMITTEE MEMBER PACHECO: Very good then. Thank you very much, Arnie.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah.

CHAIRPERSON MILLER: Okay. President Taylor.

VICE CHAIRPERSON TAYLOR: Thank you, Chair Miller.

So generally it has to do with low income housing. So okay. So that's a good thing I guess.

I was going to ask you -- you had mentioned - and I think you were looking at market environment at the time, but you mentioned - which, yes, I've seen it too - fossil fuel up 30 percent.

So what is currently driving this? Because there's usually a reason.

MANAGING INVESTMENT DIRECTOR PHILLIPS: So simple supply and demand is the obvious answer, but --

VICE CHAIRPERSON TAYLOR: Yes. But have they choked off supplies?

MANAGING INVESTMENT DIRECTOR PHILLIPS: A little bit. And I think it's -- again the transition from brown to green, from fossil fuels to not, we knew was not going to be smooth. And typically what happens when oil prices go up is you see the less efficient, whether its fracking, whether it's older wells that don't yield as much, but at a certain dollar price become usable again. A lot of that capacity has gone away. And, you know, in the long run is good thing because we're trying to transition. But in a supply-demand imbalance it can cause the supply side to kind of drag a little bit longer or more than it would have. And so the Saudis and others have cut back production, which has really driven up the price. Traditionally you would have seen a reaction from these sort of at-the-margin players. And we're seeing less of that at least currently.

And so, again, I think it's a -- as Nicole said, we don't get straight line 7 percent returns every year. But the transition to a more sustainable world probably will have some volatility with it. And I think that's a little bit of what we're experiencing today.

VICE CHAIRPERSON TAYLOR: Okay. So basically what you're telling me is that the old fracking or the old wells that would cost too much to use but would be used in a time like this are not there now?

MANAGING INVESTMENT DIRECTOR PHILLIPS: Again, way out of my area of expertise to know that --

VICE CHAIRPERSON TAYLOR: But we don't know that for sure?

MANAGING INVESTMENT DIRECTOR PHILLIPS: -- and we should get our oil and gas person. But that's what I'm reading, is that -- you know, that usually that swing capacity is either slower to come in or is not going to come in. And the reality is is a lot of the -- the owners of these companies have gotten the message too that the transition's coming. I mean we even see what the Saudis doing, a lot of diversification of their economy, that the stock market and others have rewarded companies that have taken a lot of this capacity off line and not done exploration. And so I think it just -- you don't know the extent of it until you start to see a supply-demand imbalance, and --

VICE CHAIRPERSON TAYLOR: There's a long conversation about that, because I'm well aware that there's lots of new exploration going on. So that sounds a little iffy. But I am seeing it at the gas pumps, that's for sure.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Absolutely.

VICE CHAIRPERSON TAYLOR: It's almost six bucks a gallon right now. So --

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yes.

VICE CHAIRPERSON TAYLOR: All right. Thank you.

CHAIRPERSON MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Mr. Chair.

I want to follow-up back on President Taylor's question a little bit. In your response you mentioned the transition from -- I guess from oil to green economy is not going smoothly. So my question I guess is, are there opportunities -- are we seeing opportunities to facilitate bonds or fixed income to those companies I guess who are working on that transition? And if not, we have policies or what can we do in that arena?

Thank you.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Yeah. So if -- I misspoke if I said it is not going smoothly, because I do think the transition is working. But where I think it -- you get the wiggleness is when you get the -- either the supply or the demand side changing and we just have less players there to maybe equalize it.

As far as opportunities, I mean, we've seen the lawsuit this week on some of the promises of some of the oil companies in California going after them. So again, a lot of it comes down to data and being able to, I guess, trust and verify in a sense. And for us, the -- certainly the green opportunities present themselves -- and maybe Nicole or Dan's even better prepared to answer this -- but will present themselves in probably a lot of our asset classes. You'll see those opportunities and equities. Hopefully we'll see them in the infrastructure area.

Certainly we could see them in the bond area. But they'll often be, you know, a company raising debt that probably isn't specifically targeted for a certain project sometimes and we just know they're going to ultimately use those proceeds to do what they're doing.

But I do think we will continue as an organization see those opportunities across all of our asset classes. And, you know, for us it's the ESG part going into our evaluation of the fundamentals of the company and then, given our view of that, do we think we're being appropriately compensated at whatever level the bond is trading at.

MEMBER RUBALCAVA: Thank you.

CHAIRPERSON MILLER: Okay. I don't see any more requests from the Board to speak.

And thank you. Great presentation again. I really enjoy this style of presentation and the kind of dialogue that we can have around it. It's very helpful.

MANAGING INVESTMENT DIRECTOR PHILLIPS: Me too. I enjoy the Q&A. So thank you.

CHAIRPERSON MILLER: Thank you.

Okay. And next up we'll have Global Public Equity Annual Program Review.

CHIEF INVESTMENT OFFICER MUSICCO: Excellent. So of similar fashion where we're going to review -- give you an update market environment portfolio performance in this analysis as well.

Oh. Wilshire's -- I believe Wilshire may be commenting on fixed income. Sorry.

Okay. Sorry about that.

TOM TOTH: Good afternoon. Tom Toth with Wilshire Advisors. I will keep my comments brief, as you have Wilshire's opinion letter in your package as

Attachment 2.

Just to summarize, we believe the global fixed income program is managed in an effective and risk conscious manner, leveraging the expertise of the senior management team.

We did want to point out that the size of the internal fixed income team remains a risk factor, something we've talked about in past reviews in continually to successfully manage the portfolio.

The team is actively bolstering the resources through a request for new positions and recruiting to fill open positions. However, the tight labor market and a lengthy recruiting process does remain a challenge.

On page 4 of the opinion letter, you'll note a chart measuring the rolling correlation of CalPERS income and growth portfolios. And this goes a bit to Chair Taylor's question. Correlation measures, the degree to which assets move together. A lower level of correlation is more diversifying when constructing a portfolio. And as I mentioned earlier, we expect that correlation to moderate, improving the diversification benefits of high quality fixed income.

Utilizing Wilshire's manager research scoring framework, which is the same framework we've used in our reviews in years past, it looks at the investment team, their sources of information, how they forecast security prices going forward, portfolio construction and implementation. Our assessment of the program places it in the third decile. The score reflects a reduction in information gathering resources and a modest decrease in forecasting. The program continues to exhibit very strong portfolio construction and implementation scores. And overall a third decile score is, to be clear, a very strong score, reflecting the experienced team in place and their success and managing the portfolio over a long period of time.

Be happy to stand for questions.

CHAIRPERSON MILLER: Okay. I'm seeing no -- oh. No. Okay.

No questions.

TOM TOTH: Thanks very much.

CHAIRPERSON MILLER: Thanks.

CHIEF INVESTMENT OFFICER MUSICCO: So now we will ask Simiso join us to review our global equity program.

Thanks, Simiso.

(Thereupon a slide presentation).

MANAGING INVESTMENT DIRECTOR NZIMA: Thank you, Nicole.

Good afternoon, members of the Investment Committee. Simiso Nzima, CalPERS staff.

Today I'm going to walk you through the Global Public Equity Annual Program Review.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: I'm going to cover the overall program review, talk a little bit about the market environment, spend some few minutes on portfolio performance and then on operational updates.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: So starting with the role of global public equity. Global public equity provides exposure to economic growth. It is a core role for the total fund portfolio: One, to deliver capital appreciation over the long term and the operative way they're being in long term; and, two, as a source of liquidity for total fund cash flow needs.

The 2017 asset liability management process divided global public equity into two distinct segments, the cap-weighted segment and the factor-weighted segment. The two portfolio priorities that drove that decision were protecting the fund -- funded ratio that is mitigating the impact of severe drawdown risk on total fund; and the second priority too was on stabilizing employer contribution rates.

At the time when the segments were created, the funded status for the PERF was at 68 percent and there was concern and fears that if the equity market were to experience a severe drawdown, the funded ratio could fall below 50 percent, into what is known as a death spiral. As a result, the two segments were created and the factor-weighted segment was purposefully built to have a lower volatility and lower beta than the cap-weighted segment.

Moving on to the key metrics. 73 percent of the portfolio is in cap weighted and 27 percent is a factor weighted. Most of the assets are internally managed, which is really a low cost way.

And then the Investment Beliefs. The investment beliefs just touch mostly on our portfolio management principles around risks - returns, costs and investment horizon as it relates the sustainability principles.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: Moving on to the market environment. You've heard a lot today around inflation around the Federal Reserve. And here we are today, we're still waiting for the most widely anticipated recession in history. Why it hasn't arrived, that clouds continue to float above equity markets.

Talk has moved from a hard landing to those of a soft landing, and now to no landing at all. The truth is, no one really knows what will happen given that the different macroeconomic indicators are giving diverging views.

While inflation is decelerated from about 9 percent in June last year to about 3.7 percent in August this year, it is still materially above the Fed's 2 percent target. It is important though to note that the Fed's 2 percent inflation target is not mandatory. The mandate of the Fed is really to maintain price stability and maximum employment. So there's really no requirement for the Federal Reserve to get inflation down to 2 percent. So we'll see whether they'll actually do something about that.

The financial markets as of now appear to be discounting a higher for longer federal funds rate; instead appearing to expect that the Fed would lower rates next year.

We expect market volatility to continue given a number of risks associated with the led impact of higher interest rates on economic activity; geopolitical uncertainty, which we believe isn't fully priced into markets; and elevated valuations in certain market segments; and wavering global growth.

From a portfolio perspective, we'll continue to seek to add value by prioritizing active management in less efficient markets and using our long-term investment horizon to extend short-term market volatility.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: On this slide, I want to spend a few minutes talking about the equity risk premium. When we invest in equities, instead of bonds, we expect to be paid a premium to compensate for the higher risk of equities. This is what is known as the as equity risk premium.

As shown on this graph, over the last 30 years ending in June 30th, 2023, equities significantly outperformed bonds. If one had put one dollar in the S&P 500 Total Return Index on June 30th, 1993, it would have grown to $6966. The same dollar invested in bonds would have grown to $1263. That's a sixth of what equities delivered over the 30-year period.

On an annualized basis, equities end 10 percent per annum, compared to 4.4 percent per annum for the bonds over the 30-year period.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: Now, turning on to this slide on -- the slide 7, this chart on slide 7. This chart shows the same 30-year period where the S&P 500 total return index delivered unrealized returns of 10 percent per annum but instead focuses on the periods of drawdowns. As can be seen from this graph, the S&P 500 suffered significant drawdowns of 20 to 50 percent during this period despite delivering exceptionally strong annualized returns over the entire period. So over the -- you know, starting on July 5th, 1993, to June 30th, 2023, 10 percent per annum. But within the period were a number of periods where you have more than 20 percent drawdowns.

The two main points I would like you to take from this graph, volatility and drawdowns are regular features of equity markets; and, two, that the short-term focus would likely lead to some optimal decisions would limit our ability to add value over the long term.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: Now, going back to look at the market environment: Paraphrasing Charles Dickens in the Tale of Two cities, it was the best of times, it was the worst of times; it was a tale of two halves. So many themes that worked in the first half of the fiscal year divest in the second half.

For example, if you look at the chart that shows the sectors, the energy sector was the best performing sector in the first half of the fiscal year; and in the second half of the fiscal year it was the worst performing sector.

The communication services, worst performing sector in the first half of the year and second best performing sector in the second half of the year.

Same thing if you look at styles. Value is the best performing in the first half of the year; close to bottom in the second half of the year.

And growth was the worst performing in the first half of the year and the best performing in the second half of the year.

And the same can be seen where on the bottom left graph we actually show the returns of our uncap-weighted portfolio. Where if you look at the substrategies in the first half of the year, they're actually outperforming their benchmarks; whereas almost all of them in the second half of the year underperformed the benchmark.

The reason for this really was that -- was an out-of-market breadth, which is a negative for active funds in that you have the lower probability of picking winners.

An example of this out-of-market breadth really is that there were seven stocks, which we call the Magnificent Seven, which drove most of the returns during this period. For example, in the second half of the year, if you look at the return of the public-equity cap weighted, which was 13.61 percent, the seven stocks contributed 50 percent of that return. You know, amongst the seven magnificent -- Magnificent Seven stocks the

Microsoft, Apple, Nvidia, and so forth, they contributed half of that return.

The performance of these stocks was driven by a flight to serve up a more defensive means as fears of an economic recession loomed at the beginning of the year and the banking crisis in March and the AI-related tech boom in late spring.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: Now in slide 9 we show the difference of components of the cap-weighted segment. And this can be seen from this -- the cap-weighted segment delivered strong returns over the 1-, 3-, 5-, and 10-year positive returns.

The public equity was the dominant driver of PERF's total return of 5.8 percent this past fiscal year. I think Nicole referred to that earlier on. Within the cap-weighted segment, 79 percent is index oriented; and the 21 percent is what is active. And if you look at the actual performance, if you're looking at the contract at the bottom left, you can see that we actually performed in line with the strategic asset allocation expectations.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: This slide just shows the different subcomponents of the cap-weighted index. And again to the point I made earlier, they contributed, all of them, positively to the 8.3 percent absolute return on a five-year basis of the cap-weighted segment.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: I'll skip a few slides and go to the factor-weighted segment.

So the factor-weighted segment's about 27 percent of the global public equity portfolio. Again, if you look at the absolute performance over the 1-, 3-, and 5-years positive absolute performance. And if you look at the contractor, the bottom left, you can actually see that it performed in line with expectations when it was put in the strategic asset allocation.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: I'll jump a few slides again and talk about the program evaluation.

So looking at the things that weren't in the areas of refinement. So the things that weren't the implementation of the strategic asset allocation targets in an efficient and risk controlled manner, working in collaboration with the total fund portfolio management team. The deployment of additional capital to active strategies, which includes the active book from 8 percent to 16 percent of the global public equity portfolio. And the strong absolute returns as well as relative returns which I just talked about a minute ago.

Areas of refinement will continue to refine our strategies as process to be able to deploy capital in a more opportunistic way. And we'll also work with the total fund portfolio management in the assessment of the continued activity of the factor-weighted segment. This is something which the team has been talking about quite a bit, and as of part of the mid-cycle we're going to be looking at that again.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: In terms of the initiatives for fiscal 2023-24. Again we continue to work to deploy additional capital into active equities to diversify the book. We work with Peter Cashion's team in terms of developing invoice net-zero strategy with a special focus on both investments and engagements, as well as we'll continue to refine the strategy search process.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: Last but not least, moving on to slide 20, really talking about how we integrate ESG or sustainability into the portfolio.

This slide shows that we continue to support sharing of proposals that are aligned with the CalPERS Governance and Sustainability Principles when we hold Board accountable on a number of things.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: On slide 21, we show executive compensation votes. Again, we show that we're voting against the majority of say-on-pay plans and holding Compensation Committee members accountable by voting against those Compensation Committee members where there's no alignment between pay and performance.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: On slide 23, we highlight our work on climate change specifically from a strategic perspective through our role in the Climate Action 100 Steering Committee, as well as from an engagement perspective where we enhanced of what in practice on climate and voted against 289 directors at 97 companies.

--o0o--

MANAGING INVESTMENT DIRECTOR NZIMA: On slide 24, what we wanted to showcase here is two examples of what we call event-driven engagements. And both of these are examples associated with our work on human capital management.

The event-driven engagements really come about because of staff's continuously monitoring the market on emerging issues and then taking action in alignment with the CalPERS Governance and Sustainability Principles. So the two examples here, one, child labor issues and the freedom of association, I think both of these examples, you know, you had different speakers early on today refer to these issues. So we would actually go and engage with the affected companies and then use that as input into our proxy voting decisions or monitor the situation and use that as a -- one of the factors we consider when we actually vote in proxies.

That concludes my presentation for today, and I'll open up for questions.

CHAIRPERSON MILLER: Okay. Thank you. We do have some questions.

President Taylor.

VICE CHAIRPERSON TAYLOR: Thank you, Chair Miller.

So there's a lot here, Simiso. Thank you very much.

So you said something I thought was interesting, because it's also in the presentation, which is you're reviewing whether or not the factor-weighted segment is something that's important to the portfolio.

Is it dragging on the portfolio.

MANAGING INVESTMENT DIRECTOR NZIMA: I think there are two ways of looking at the factor-weighted segment. So when it was put into the portfolio in 2017, it is a specific purpose. And the returns that it has delivered to date matched the purpose that it was put for. But when you compare the factor-weighted segment to the cap-weighted segment, it is a lower return than the cap-weighted segment. This is something which again it's a portfolio with a beta of 0.7. So it means that if the cap-weighted segment, for example, is up 10 percent, you'd expect the factor-weighted segment maybe to be up 7 percent instead of 10 percent.

So really it is performing in line with expectations. But the question really is, do we still have the same utility, do we still need to have the factor-weighted portfolio given that when the time it was put in place, based on 2016 numbers, the funded ratio at that time was 68 percent. So there was really a lot of concern about if the stock market went down 50 percent or something like that, the plan's funded ratio could go below 50 percent, and that would be difficult to come back.

So really it's about looking at the utility of that.

Dan.

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: The only thing I would add to that is that recall that in the 2021 ALM work we did take it from 15 percent down to 12 percent. So we needed to reduce the weight, but we -- but 12 percent is still a significant weight. And like Simiso said, back to 2017, we had one set of capital market's assumptions and we were looking for diversification. So relative to cap weighted -- and a clear answer to your question: Relative to cap weighted it's dragging. Relative to the rest of the portfolio, I would say it's not dragging. It's doing what it -- as part of the total portfolio construction, it's doing what it was intended to do.

VICE CHAIRPERSON TAYLOR: So we're not looking -- I guess I was concerned with your verbiage, because I think maybe I was thinking are you trying to get out of the factor weighted.

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: It will -- that will be part of the review that Sterling and team are going to lead us through in November is whether we -- whether -- especially with the change in interest rates, it's a different -- it's a different lens to look at it through, and the question is --

VICE CHAIRPERSON TAYLOR: Right.

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE:

-- whether we still have utility and how much utility?

VICE CHAIRPERSON TAYLOR: And will that change the dynamic later on for that particular factor-weighted, right?

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: Correct, correct. Because, remember, when it went in interest rates were lower. Now, that interest rates have gone up as they have, it may be that we have other ways to get that diversification. But all of that work is the work that will go on.

VICE CHAIRPERSON TAYLOR: Okay. Great. Thank you.

CHAIRPERSON MILLER: Okay. I have Patrick Henning for Fiona Ma.

ACTING COMMITTEE MEMBER HENNING: Thank you so much.

I noted on the -- just the slide that's up there from the 12 portfolio companies had reached in allegation to child labor issues. It's troubling to me. I imagine over the years we've seen numbers that hopefully are less than that, but I can't imagine unfortunately.

You said that we've gone after them and talked to them about their third-party vendors. In all the cases, they were third-party vendors?

MANAGING INVESTMENT DIRECTOR NZIMA: I would have to ask -- let's if Drew is here, who leads our corporate governance team with total investment --

ACTING COMMITTEE MEMBER HENNING: That's all right. And as he's coming up, I guess the logical follow-up question is, so we've said, "Hey, knock that off," I imagine, or stop using them. Have they stopped using them? Have our -- have our efforts borne fruit that we know of as of yet?

INVESTMENT DIRECTOR HAMBLY: Good afternoon, everybody. Drew Hambly, head of stewardship and governance.

So what we did -- there was an article in the New York Times I believe it was late February of this year that outlined 12 companies that had been caught with some type of child labor in their supply chain. So what we did is reached out to those 12 companies. I believe we -- yeah, we talked to all 12 that were there, and talked to them about, you know: "How did this happen? What is your supply chain management rules? Are you doing site visits?"

I think all 12 companies were surprised that in the U.S. they had this as well. I think they were all embarrassed by it. So first of all, yes, we did say, you know, "Knock this off." But we got some com -- well, not comfort. But what we understood the biggest issue was them using third-party staffing people that were causing the issue. So to give an example is he'd have an employee who had a badge and they'd come to the factory or the warehouse, wherever they're working, and they might have given their badge to somebody else and nobody was sort of spot checking. So the badge was valid. But maybe they gave it to their son or their nephew, who was underage, to go fill out that shift. And nobody was looking. You know, the badge worked but they weren't doing kind of site practice visits.

So all 12 of those companies have, you know, at our request gone out and to, you know, get on-site, talk to these vendors.

What we also don't want is we don't want them to just fire the vendors. We want them to work with these vendors so they improve their overall practices. Because if these big companies fire these, you know, staffing vendors outright, they're just going to go to another company. We want them to use their power to improve this so it doesn't happen again.

And so that's what they were working on. So we had some -- and these were all companies named in the article: Ford, General Motors, WalMart, Fruit of the Loom. And so we want those companies to work with these third party vendors to improve their practices as well. We don't to just push further into the shadows.

So it was the -- you know, the engagement we did this which Simiso talked about. And then driven. You know, we learned of some news and we sprung into action on behalf of the portfolio.

ACTING COMMITTEE MEMBER HENNING: And so above and beyond relying on the New York Times, is there any other periodicals that we use or the Department of labor or things like that that we --

INVESTMENT DIRECTOR HAMBLY: Yeah, we have two primary vendors that we use that comb new stories. They have sort of AI that are -- comb through new stories, and then we've uploaded our key portfolio companies into this. So we track what we call potential controversies. And when something pops up, that's when we'll evaluate what the nature of that controversy was, seek to start engagement with that company.

So we're using two vendors on that right now, just sort of comb new source that they go out. I think one of them's looking at like 6,000 new sources across the globe to provide us with those potential controversies.

ACTING COMMITTEE MEMBER HENNING: Okay.

CHAIRPERSON MILLER: Next I have director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Drew. Thank you, Simiso.

I want to go page - I think we skipped it - page

21 of 24 on the executive compensation votes. So I just noticed I mean I guess since 20 -- since Fiscal Year 2016-2017 we've had this increase in compensation voting from 19 percent to up to 52 percent, and then it kind of hovers around there until like 49 percent. And is that something we're going to be seeing? I mean I'm just trying to understand why it hasn't gone up more or gone less more. If you can explain that perhaps and the trends around that.

Thank you.

INVESTMENT DIRECTOR HAMBLY: You want to stay.

Yeah. So part of my comment, in the 2018-2019 season, we -- CalPERS put in a model using a vendor called Equilar to proxy statements to provide compensation data. So we use that model to help drive our decision making. So that's where you see the spike from sort of 19 all the way up to 52 in that time frame.

You also notice that at that time we're voting about 2500 a year. With the trimming of the portfolio you can obviously see a drop down to, you know, just about 1100 companies that we have reviewed over -- or almost 1200 in this last season.

Two key components of this are, as owners we seek - and we're one of the few that seeks this - is sort of a five-year vesting schedule for equity awards for chief executives. The common vesting schedule for most executives in the U.S. is three years. So we're trying to create an ownership culture at the company so we -- we find companies that have an ownership mentality do better over the longer term.

But we're sort of stuck with the de facto 3-year vesting, which we believe is too short-term. So that helps drive a lot of the against votes that we see.

Now, over time we think -- you know, I was just at CII. Nice to see you there. And we had some fruitful discussions with other managers and owners that are coming to similar conclusions. So we're hopping over time to see some improvement in that structural piece of executive compensation.

The second part of that is, I think in the U.S., especially pay, is very high for chief executives relative to other countries. And so -- well, we had a bad stock market year last year, so the actual meeting was down just slightly. Still very high, but it was down a little bit. And so, you know, we'll see over time how that pay movement goes up. We're hoping to slow the rate of it, you know, through our engagement efforts. But I think right now we should be relatively stable until we see a wholesale change in sort of the ownership mentality that we're pushing for.

COMMITTEE MEMBER PACHECO: And the owner -- with respect to the 3-year to 5-year --

INVESTMENT DIRECTOR HAMBLY: That's correct. But right now the de facto -- you know, so when these companies do the peer analysis say, "Well, we're competing against all these firms everybody uses three years, we're going to use three years."

We're starting to have a little bit of effect we're convincing more to, you know, if it's a 3-year vesting period, maybe a mandatory 2-year hold. So you sort of get that same benefit of the five year. So that's something we work on at our engagement program, but albeit not as successful as we'd like right now because the market standard is, but they're not getting a lot of pressure from others other than us and a couple of the European funds in pushing that ownership mentality.

COMMITTEE MEMBER PACHECO: Okay. Very good then. Thank you very much.

CHAIRPERSON MILLER: I thought I saw Director Willette --

VICE CHAIRPERSON TAYLOR: I was next.

CHAIRPERSON MILLER: Okay. Okay. So President Taylor is next.

VICE CHAIRPERSON TAYLOR: So just -- it's interesting couple of things you said, Drew. Simiso had started the whole stay-on-pay thing a long time ago. He was very passionate about it. I really appreciated that. Doesn't seem like it's done anything for us unfortunately. We're still -- in fact, I think it went up some more, didn't it? The disparity went up kind of a bit.

INVESTMENT DIRECTOR HAMBLY: Are you talking the -- you know, the worker pay ratio?

VICE CHAIRPERSON TAYLOR: Yeah, worker --

INVESTMENT DIRECTOR HAMBLY: It definitely has gone up.

What we saw were -- I was a little nervous at the beginning of the year because we were seeing a spike in what we track is sort of median pay at the S&P 500, because most people that day was pretty easy to get ahold of. And it was sort of trailing up at the beginning of the proxy season and then as some of the later reporters who had bad years, I think it was around 15-ish million is the median pay level for like salary, bonus and equity for an S&P 500 CEO.

So I would agree that despite our efforts, pay keeps creeping up, and we're not seeing a sea change to the ownership mentality. We're having discussions with other funds and some other managers that are thinking more along these lines, so maybe we'll see a little more progress, maybe some potential --

VICE CHAIRPERSON TAYLOR: Some partnerships?

INVESTMENT DIRECTOR HAMBLY: -- partnerships.

VICE CHAIRPERSON TAYLOR: Yeah.

INVESTMENT DIRECTOR HAMBLY: So at the CI meeting we had a fruitful meeting with about 12 owners and managers that were particularly concerned about the use of performance stock units which tends to drive up that number you're talking about; also with that short vesting schedule that I'd mentioned.

VICE CHAIRPERSON TAYLOR: And, gee, we wonder why employees want 40 percent raises, because -- anyway.

What I thought was very interesting in what you said earlier is that with these issues that come, right, you're actually hired a vendor to track news articles. And it's funny, I think Director Willette and I had talked about that in a laughing way, like we didn't think that existed. So -- because we were -- you know, how do you keep track of it is what we were thinking, you know. These things happen all the time. It happens in public equity, it happens in private equity. How do you keep track of it?

So that is interesting, if you would kind of broaden what you said about it.

INVESTMENT DIRECTOR HAMBLY: Yeah. So -- yeah, so this particular vendor -- we actually have two -- and this one that we just brought on board -- we have 6,000 companies in portfolio, so we're going to, you know, miss a couple.

What we're trying to do is really focus on 50 percent or more of the AUM of the equity portfolio, which gets us to about 800 or so companies. Now that's still a lot for my existing team to cover 800. But that's a significant -- that's over half the assets.

Actually, you know, 800 gets us to about 80 percent of the AUM. So that's sort of -- you know, we might have a company where we own a little bit -- not that it's an issue we shouldn't be concerned about, but we want to see effect to the total fund. And so we tracked the top hundred names in the portfolio. That's a, you know, watchlist we put in to look for any key issues that come up there. And so we're able to use this -- these two vendors with our equity portfolio to sort of flag issues as they bubble up, and then do the best we can through engagement to -- you know, work with that company over time to improve whatever that issue is.

But it's very helpful to keep track of a portfolio of 6,000 companies. We're not going to get to everyone. We'll miss some from time to time. But we feel strongly that the most significant names in the portfolio are getting good coverage by the team.

VICE CHAIRPERSON TAYLOR: Well, we appreciate that.

So what would you say would be good resourcing for that? If you were to like say I need at least X amount of people to cover those top 100. But if I'm going to at least touch 800 of them, what would you need?

INVESTMENT DIRECTOR HAMBLY: A good engagement analyst can probably handle about a hundred engagements a year. And we currently have five people that report to me and myself. So to do the job well --

VICE CHAIRPERSON TAYLOR: You need at least three more.

INVESTMENT DIRECTOR HAMBLY: I'm not here to, you know, beg for re -- I think we got -- we have a couple of people on the team with long tenures that do a really good job and can handle this. So I'm pretty confident that we're covering at least 50 percent of AUM if not closer to 60 with the staff we have.

VICE CHAIRPERSON TAYLOR: Okay. Thank you.

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah, I think -- I think just to -- to add to that. I think because we're focused on thematic engagements like board diversity, climate change, you know, some of the human capital monies been -- that helps us in terms of how we can get across to many companies with fewer people and so forth. And also the technology, like Drew saying, you know, having to use those tech notes called tools to be able to scour the market and see what are the themes, what are the issues that I mention. You have the topic, it's kind of helpful, because I mean, with the size of our portfolio there's no limit to the number of people you need.

VICE CHAIRPERSON TAYLOR: Sure.

MANAGING INVESTMENT DIRECTOR NZIMA: So it's really -- you know, it's a balancing act.

VICE CHAIRPERSON TAYLOR: Sure. But you guys have a staffing problem anyway. So...

INVESTMENT DIRECTOR HAMBLY: You know, what I'd say is we have in -- if you look at the age of it, you have experience on the team. We have five out of the six people that have been doing -- we have three people with close to over 60 years of collective engagement experience on the team. Even a team like BlackRock that might have 40 or 50 people doing this, well, you know, some of those are two or three years and aren't good at going toe to toe with a CFO or a board director. That's not the experience our team has. So we've got a -- it's small but it's a strong well-experienced team.

VICE CHAIRPERSON TAYLOR: Great. Thank you.

CHAIRPERSON MILLER: Okay. Next I have Director

Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Simiso and Drew.

I think President Taylor actually asked part of my question. So I won't dive into that part.

But the discussion on the soft landing, no landing, what should have happened didn't happen. Does that change how we look at forecasting and the projections moving forward? And if so, what is -- what are those effects on the larger picture of the 10-year forecasting and things of that sort?

MANAGING INVESTMENT DIRECTOR NZIMA: Yeah, I think -- I will leave the economic forecasting to economist. And the realities that, you know, a focus tend to be sort of a median of -- you know, a wide range of focus. So when people talk about, you know, maybe let's say GDP growth of, you know, 3 percent or something like that, there's a wide range around that and those numbers can be -- you know, can be wrong a lot of the time. But for us really as we think about a portfolio, because we are long-term investors, so really we're looking at long term. The staff that happens on the short-term is not really that much of, you know, what changes our portfolio. So I wouldn't look at returns, for example, looking at five-year returns -- five-, 10-, you know, 15-, 20-year returns, because we think over the long term the fundamentals would drive the performance of the companies.

So the short-term focus we don't really spend too much time on that. It's just from a public equity perspective.

CHIEF INVESTMENT OFFICER MUSICCO: I think we're -- it's important to note though where we do pay attention is when we have the CMAs. We refer to them as the capital market assumptions that are fed into our models, when we're coming up with the asset liability studies or what sets our strategic asset allocation. We do pay very good attention to differences between what assumptions we were using say in 2017, 2018, 2019 versus where those consensus capital market assumptions are today. And so Sterling and team are very frequently, and even more frequently so recently, running scenario analysis, taking into consideration these new capital market assumptions. And so when we come back in November, when we start talking about the midpoint of the strategic asset allocation, that's an opportunity for us to say, you know, based on what we've put into the original model versus what we're seeing now, we are -- we're suggesting to make some changes.

So it's a dynamic way that we are constantly looking at our portfolio, and there is an absolute opportunity for us to make recommendations to change the strategic asset allocation if the market is making bold moves or shifts compared to original assumptions.

COMMITTEE MEMBER PALKKI: Thank you.

CHAIRPERSON MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Chair.

I really appreciate the presentation. I really like it how we're looking at public equity and what it -- how it evolved in the short term, long term. I found it very interesting.

But I also want to talk about I think we're doing -- you are doing great work and the CalPERS is doing great work in integration of governance and sustainability. And I think that's very consistent with who we are as a body, CalPERS. And we had a discussion this morning about the labor principles and there was some discussion about how sometimes we're -- we don't have any allies or we have few allies. But I think it's correct to be the leader and then continue to do that, because we have -- we feel it's a fiduciary duty to ensure that there's an investment return the long run and this is the way to do it.

So thank you for the work, and I encourage you to continue the good work.

Thank you.

MANAGING INVESTMENT DIRECTOR NZIMA: Thank you, Chair.

CHAIRPERSON MILLER: Thank you.

I see no more questions or requests to speak, and so I will reiterate the thanks for the presentation. Really appreciate it.

And on to our consultants.

CHIEF INVESTMENT OFFICER MUSICCO: We're going to invite a consultant now.

ALI KAZEMI: Good afternoon. Ali Kazemi with Wilshire Advisors. And the comments are going to be brief, just to cover our scoring for the overall global equity program. You can see the details of our comments in the attached materials in your decks.

And the summary for us is really that the scoring overall is largely unchanged from when we discussed this 12 months ago. Shouldn't be interpreted as due to lack of any action over the last 12 months. You know, the overall scoring is still relatively high. Tom alluded to the overall framework in terms of the scoring components. The global equity team currently scores in the third decile with the letter grade of a B, and that is consistent where it's been in years past.

One of the areas that we are, you know, pleased to see is with regards to team resources. So over the last 12 months, four positions were backfilled, including the investment director for corporate governance withdrew. As you can see, it's a busy position, and it's nice to take that off of Simiso's plate. So I'm sure that has been additive to the overall structure.

But in addition to those four hires, two new positions are currently outstanding.

So we've certainly seen stability within the team, no departures over the last 12 months, and that has also factored into our overall increase in the team resources score.

Besides staffing over the last 12 months the team was involved of course in the implementation of the new strategic asset allocation, and work continues in terms of the potential expansion of active risk in the portfolio which has been mentioned several times throughout the day. We are already starting to see some of that increase. In our letter you'll note that about 7 and a half percent of the assets were transferred from index-oriented strategies over to an enhanced index strategy, along with some existing active strategies that were high conviction in nature.

We would note that, you know, if the active risk and the portfolio does continue to grow, you know, additional resources would certainly be warranted within that team; and I think staff has acknowledged that.

So with that, I'll just note that overall again the score continues to reflect, you know, a very strong team that is stable and is continuing to deliver, you know, what's being expected of it.

So happy to answer any questions.

CHAIRPERSON MILLER: Okay. I'm not seeing any requests to speak.

So thank you. Appreciate that.

And I think that brings us to Summary of Committee Direction.

DEPUTY CHIEF INVESTMENT OFFICER BIENVENUE: Thank you, Mr. Chair.

And I actually did not take any direction for follow-up. There were a couple of things that we will follow up on, but no direction.

CHAIRPERSON MILLER: Right. Sounds about right to me.

Okay. At this point, we come to public comment. And I have -- I do believe we have at least one public commenter on the phone.

STAFF SERVICES MANAGER I FORRER: Hi. Yes, Chair Miller. We have Sara Theiss from Fossil Free America.

CHAIRPERSON MILLER: Okay. Go ahead. You have the floor.

SARA THEISS: Hi. As you know, I'm Sara Theiss, a CalPERS retiree and a volunteer with Fossil Free California. I started participating in your meetings in 2018, and ever since then I've wondered why the Board members seem to be so dead set against divestment. And I've wondered what information or scenario would change the Board's mind.

So obviously, you could be concerned about returns, but you know from information we've been supplying that there's ample evidence that divestment from fossil fuels doesn't harm a portfolio, will help returns, and avoids risk. Just this year Waterloo University looked at eight pension funds, including CalPERS, taking into account the recent volatility in oil prices. The conclusion: The value of the funds would have been higher had the funds divested from energy holdings in 2013.

I've heard other concerns that are not related to your fiduciary duty. For example, the seat-at-the-table argument that is engagement and -- you know, I know engagement's a wonderful thing and I'm sure it works in a lot of situations. But it does not work for the fossil fuel industry, which has worked for decades to suppress information. And according to the 2022 net there are benchmark reports from Climate Action 100. None of the big 10 oil companies that CalPERS owns have set short or medium term emission goals under the net zero by the 2050 standard. And in fact with this spiking oil prices after Russia's invasion of Ukraine, oil makers dropped emission targets they had.

So as it stands, rather than having a seat at the table, it looks to me like CalPERS is the menu item popular with the fossil fuel industry.

Then there's also the question of how much fossil fuel do we need for transition in the transition plan. To meet necessary climate goals the International Energy Agency declared in 2021 that development of new oil and gas fuel has to stop immediately. Yet, as President Taylor recognized, exploration and buildup continues. In fact, there's plenty of oil and gas already developed to meet the needs for the transition.

And really my question is, given all this, why don't you get input from outside experts other than Mark Carney from institutions and people that agree to the financial rewards of investments. There are now over 1,500 institutions divesting over $4 trillion, so there's plenty of experts to choose from. And Bevis Longstreth, a legal expert in fiduciary duty wrote in 2015, given the absence of material risk to a portfolio from divesting, the bet in continuing to hold on and try to time one's exit is an asymmetrical bet that suggests spatial improvement.

So we're on a -- we and our plan are on a runaway train as to the climate disaster. You all have an engineer and conductor on the CalPERS train. Please take control. Bring in the experts and hire a CIO that will help you meet your fiduciary duty with regard to climate financial risk.

Thank you so much.

CHAIRPERSON MILLER: Thank you.

Do we have any other commenters?

BOARD CLERK ANDERSON: (Shakes head).

CHAIRPERSON MILLER: No, I don't believe so.

So at this point, we're going to recess into closed session. In about 10 minutes we'll -- 10 minutes to transition and clear the room and everything.

So thank you all.

(Off record: 2:53 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 4:08 p.m.)

CHAIRPERSON MILLER: Okay. We've returned. We're back in open session. We concluded our closed session. And at this point, unless there are objections, I will adjourn this meeting of the Investment Committee.

Okay. We're adjourned.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 4:09 p.m.)

CERTIFICATE OF REPORTER

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of September, 2023.

James F. Peters

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