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

TUESDAY, FEBRUARY 18, 2025

1:17 P.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chair

Mullissa Willette, Vice Chair

Malia Cohen

Michael Detoy(Remote)

Fiona Ma, represented by Patrick Henning

Eraina Ortega

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Theresa Taylor

Yvonne Walker

Dr. Gail Willis(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Michael Cohen, Chief Operating Investment Officer

Stephen Gilmore, Chief Investment Officer

Michele Nix, Chief Financial Officer

Scott Terando, Chief Actuary

Sterling Gunn, Managing Investment Director

APPEARANCES CONTINUED

ALSO PRESENT:

Jared Gaby Biegel, United Food and Commercial Workers

J.J. Jelincic, Retired Public Employees Association

Jose Martinez, United Food and Commercial Workers

Frank Ruiz

Mark Swabey

INDEX

PROCEEDINGS

CHAIR MILLER: Okay. Good afternoon, everyone. I hope everyone enjoyed their break and happy to see you all back here with us for this open session of the Investment Committee. So I'll call it to order and we'll do the roll call.

BOARD CLERK ANDERSON: David Miller.

CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Theresa Taylor.

VICE CHAIR TAYLOR: Here.

BOARD CLERK ANDERSON: Malia Cohen.

COMMITTEE MEMBER COHEN: Here.

BOARD CLERK ANDERSON: Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK ANDERSON: Patrick Henning for Fiona Ma.

Eraina Ortega.

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki.

COMMITTEE MEMBER PALKKI: Good afternoon.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Here. Present.

BOARD CLERK ANDERSON: Yvonne Walker.

COMMITTEE MEMBER WALKER: Here.

BOARD CLERK ANDERSON: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

BOARD CLERK ANDERSON: Dr. Gail Willis?

(Retractable barrier slipped out of Acting Committee Member Henning's hand and made noise.)

ACTING COMMITTEE MEMBER HENNING: That's how I announce my name. Here for Patrick Henning.

(Laughter).

CHAIR MILLER: Patrick is here.

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

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: I attest that I am alone.

CHAIR MILLER: Okay. And did Dr. Willis join?

BOARD CLERK ANDERSON: (Shakes head).

CHAIR MILLER: Okay. We'll do the attestation if and when she arrives.

Okay. So the next order of business is the election of the Chair and Vice Chair of the Investment Committee. And for this, I'll hand the gavel over to President Taylor.

VICE CHAIR TAYLOR: Can you hit my microphone. I have a microphone. You have a microphone.

All right. So with that, I would like to take nominations for the Chair of the Investment Committee. And with that, I will call on Kevin Palkki.

COMMITTEE MEMBER PALKKI: I'd like to nominate David Miller.

VICE CHAIR TAYLOR: All right, I have a nomination for David Miller.

Is there another --

COMMITTEE MEMBER WILLETTE: Second.

VICE CHAIR TAYLOR: And a second from Mullissa Willette.

CHAIR MILLER: Is there another nomination?

VICE CHAIR TAYLOR: I can entertain another nomination.

Is there another nomination?

All right. Seeing no other nominations, I have a motion and a second for David Miller for Chair. We do -- roll call vote, yeah, that's what I thought. We do need a roll call vote. So go ahead.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Aye.

BOARD CLERK ANDERSON: Malia Cohen?

COMMITTEE MEMBER COHEN: Aye.

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK ANDERSON: Patrick Henning?

ACTING COMMITTEE MEMBER HENNING: Aye.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Yes.

BOARD CLERK ANDERSON: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK ANDERSON: Dr. Gail Willis?
COMMITTEE MEMBER WILLIS: Aye.
CHAIR MILLER: And I guess I'm an aye as well.
VICE CHAIR TAYLOR: All right. So congratulations, David.
CHAIR MILLER: Thank you. Appreciate it.
Oh, I got the gavel again.
(Laughter).
CHAIR MILLER: I really look forward to that.
So, at this point, the election of the Vice Chair of the Investment Committee. And so I'll entertain nominations.
Oh, I didn't --
CHAIR MILLER: Theresa -- there we go.
VICE CHAIR TAYLOR: There you go. Sorry about that. I'd like to nominate Mullissa Willette for Vice Chair of Investments.
COMMITTEE MEMBER HENNING: Second.
CHAIR MILLER: We have a nomination. We have a second from Mr. Henning.
CHAIR MILLER: So any discussion on the matter?
Okay. So I'll call for the question.
VICE CHAIR TAYLOR: You want to do it three times?
CHAIR MILLER: Oh. Any other nominations?

Any other nominations?

And for a third time, any other nominations?

Okay. At that point, we have a motion. We have a second. We have no other nominations.

Further discussion?

So I'll call for the question, roll call vote.

BOARD CLERK ANDERSON: David Miller?

CHAIR MILLER: Aye.

BOARD CLERK ANDERSON: Theresa Taylor?

VICE CHAIR TAYLOR: Aye.

BOARD CLERK ANDERSON: Malia Cohen?

COMMITTEE MEMBER COHEN: Aye.

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK ANDERSON: Patrick Henning?

ACTING COMMITTEE MEMBER HENNING: Aye.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

BOARD CLERK ANDERSON: Dr. Gail Willis?

COMMITTEE MEMBER WILLIS: Aye.

CHAIR MILLER: Okay. Let me do the attestation now that Gail has joined us.

COMMITTEE MEMBER TAYLOR: I'm going to trade with Mullissa.

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

COMMITTEE MEMBER WILLIS: Yes, I attest to the fact that I am alone. Thank you.

CHAIR MILLER: Okay. Thank you. Okay. I think that covers that. So that moves us to action consent items. And I have not had any requests to pull anything and I'm not seeing any --

COMMITTEE MEMBER PACHECO: I'll move.

CHAIR MILLER: Oh, okay. Moved approval by Mr. Pacheco.

ACTING COMMITTEE MEMBER HENNING: Second.

CHAIR MILLER: Seconded by Mr. Henning.

Okay. We have a motion and a second. Any discussion? Okay. Let's call for the question.

All in favor?

BOARD CLERK ANDERSON: Roll call vote.

CHAIR MILLER: Roll call vote. Okay.

BOARD CLERK ANDERSON: Mullissa Willette?

VICE CHAIR WILLETTE: Yes.

BOARD CLERK ANDERSON: Malia Cohen?

COMMITTEE MEMBER COHEN: Aye.

BOARD CLERK ANDERSON: Michael Detoy?

COMMITTEE MEMBER DETOY: Aye.

BOARD CLERK ANDERSON: Patrick Henning?

ACTING COMMITTEE MEMBER HENNING: Aye.

BOARD CLERK ANDERSON: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.
BOARD CLERK ANDERSON: Ramón Rubalcava?
COMMITTEE MEMBER RUBALCAVA: Aye.
BOARD CLERK ANDERSON: Yvonne Walker?
COMMITTEE MEMBER WALKER: Aye.
BOARD CLERK ANDERSON: And Theresa Taylor?
COMMITTEE MEMBER TAYLOR: Aye.
CHAIR MILLER: Okay. The ayes have it. The motion carries.
COMMITTEE MEMBER WILLIS: What about me, Dr. Gail Willis?
CHAIR MILLER: Oh.
BOARD CLERK ANDERSON: My apologies. Dr. Gail Willis?
COMMITTEE MEMBER WILLIS: Aye.
CHAIR MILLER: All right. Now, the motion is well and truly passed. Thank you, all.
So, we move onto information consent items. Again, I don't have any requests to pull any. I'll look around and make sure everybody has got a chance to take a quick to see if they want anything pulled.
Okay. At that point, we move to our information agenda items. What we've all been waiting for and I'll hand it on over.
CHIEF INVESTMENT OFFICER GILMORE: Thank you very

Chair,

(Slide presentation).

CHIEF INVESTMENT OFFICER GILMORE: Please let me congratulate both you and Vice Chair Willette on your elections.

CHAIR MILLER: Thank you.

CHIEF INVESTMENT OFFICER GILMORE: It's great to hear. Today, is the next installment of our asset liability management discussions. And, of course, we'll continue this process for some months to come. Ultimately, ending up, I hope, with Board decisions on risk appetite in November of this year.

But as I say, more sessions to come with the Board and we'll also include some sessions with stakeholders. And I think something is in the work for April there. So you'll see a lot more on this space.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: As for today, I wanted to follow up on the exercise we conducted back in January where the Board provided a lot of really helpful feedback to think about some more of the risk trade-offs, the asset liability management risk-reward trade-offs and also to talk more specifically about how we would express that risk appetite.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: For context, obviously back in January, we had Howard Marks and we went through an exercise to try and get feedback from the Board. We've incorporated that information in today's presentation. And there will be more of those discussions going forward. And again as I mentioned, the aim is to get the Board to a position where it feels comfortable opining on a risk appetite for the -- for the fund in November.

Once we have that management, we'll then construct an actual portfolio to go live in, I guess, at the first of July 2026. So it's a fairly long process.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: As a reminder, last month, we went through that exercise, and there was some fairly high level conclusions, to say that there weren't really any real surprises for me. The responses we got are what I would have expected from an Investment Committee, given the objectives we have.

The biggest tension is probably around the desire to potentially increase risk, while at the same time not experiencing or not being exposed to large drawdowns. That's always a natural tension when doing these things. The idea with taking more risk is that prospective returns would be a bit higher, expected funded ratios would be a bit higher, contribution rates would be lower, but it would expose you to a greater risk of downside, so there's that tradeoff.

With respect to the portfolio itself, one of the interesting preferences related to the liquidity of the portfolio, I don't want to go into that today, but we'll look at more deeply that as we go forward. Performance measurement, it was very clear that the Board, and I guess represented by the IC, focused mostly on the total return objective, more important than relative returns and peer comparisons. That kind of makes sense, given the objective we have to try and improve the funded status of the portfolio.

And in terms of organization, very keen on innovation. Like a preference for more internal management. And when focusing on fees, it was really about the after fee returns that were most important. And it seemed the Board was open for a difficult complexity and slightly higher costs that would come with those preferences. And it was -- it was fairly straightforward, I think. Although, we will continue discussing that during the next few months.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Now, I've put up a table here, which is packed with information and wouldn't surprise me if the direct questions related to this slide in particular. And rather than going through the whole presentation, Chair, it might be better to take questions, if there are questions, with respect to some of these numbers, because there's a lot in here. What we have done is to be guided by the feedback we had last month to think about different potential portfolios at a very high level.

So if you look at the first line or the top line of that table, what we have done is we've looked at a whole series of passive liquid portfolios - passive - constructed from global equities. In this case, I think it's FTSE index, and U.S. treasuries. So it's that combination. And we've used that as a reference for risk appetite, in terms of market risk. So we start with a 50/50, so 50 equities, 50 bonds and we go all the way through to 90 equities, 10 bonds.

And you can see that as we take more equity risk, the expected return rises. Now, at the moment, it doesn't actually rise that much in these projections, because the current forward-looking returns on equities and bonds aren't that different. Ordinarily, I would expect that that return to rise more rapidly as we increase equity risk.

But that's the idea. So looking at the 50/50, you know, 6.13; 90/10, 6.51. That's for the simple liquid portfolio. Of course, when we construct the actual portfolio, we go beyond just liquid equities and liquid bonds. We get involved in asset class selection. So we will take some credit risk. We will also take private market exposure. And when you look at the actual portfolio we've got now, and you look at the additional value that comes from that asset selection, you could expect to earn a bit more than you would earn from just choosing those liquid asset classes.

And when we do the modeling, the optimization, it turns out that the value-add from that asset class selection is around 40 basis points or a little bit -- a little bit more than that, which means the total returns are a little bit higher and it results in the 70/30, 80/20 90/10 portfolio all giving us prospective returns or more than the discount rate. Now, of course, it's possible we could get additional returns from, you know, active management, from other sources like identifying skill and so on. But that's kind of the range we're looking at in terms of, you know, the central points for expected return.

The line below, return range, I think is relevant, because any of these prospective returns are uncertain. What we've done here when looking at these prospective returns, is to look at the capital market assumptions from our survey. I've used the ones from Q2 of last year there, because I think they're fairly representative from that time interest rates came down, then went back up again. So I would expect those CMAs to be fairly close to what we're currently observing.

But when people are working out these or projecting capital market assumptions, there is a wide range of estimates, and that return range that you see reflects that range from our survey. So looking at the 70/30, the range, you know, 5.1 to 7.9. So quite a bit of uncertainty with respect to what those prospective returns will be.

The line below that, portfolio volatility, which is the number you will often see when people are talking about risk. But if you remember back to Howard Marks or our Beliefs, we think that risk is multi-dimensional and it's not just about volatility. And I'll talk a little about that -- about that later.

And the expected tail risk is perhaps a slightly new measure. Normally, we talk about, you know, drawdowns and the like. But this expected tail risk is the expected return -- expected return in the worst five percent of outcomes. So you look at distribution and you look at what that expected return is. The interesting bit is watching how that expected tail risk increases fairly rapidly, as we increase the equity exposure. So the key is that tradeoff. How much additional return do we get from having more equities or more growth risk in the portfolio versus how much more does it expose us to downside risk?

And if I skip ahead a couple of slides here, it's exactly what Howard Marks was showing in his diagram. If you take more risk, you've got a wider range of potential outcomes, and we're seeing that from our table.

Now, the other reality of course is that this modeling is based on liquid portfolios and marking to market. Our actual portfolio will have the liquid assets and it won't be marked as frequently. So the returns will look smoother. So the observed volatility will be lower. The observed -- expected tail risk will also be lower. But that table, has, like I said, a lot of information. And gee, I don't know whether there were any specific questions that relate to this table or not, but it's probably useful to stop here, if there are, before proceeding.

CHAIR MILLER: Okay. And we do have some questions. And I'll just -- on the second line, the value-add from risk-equivalent asset selection, I don't know, it just -- it surprises me that that is -- does not change more across those portfolios when the proportion changes pretty dramatically of the equities versus the fixed. Any thoughts on that?

CHIEF INVESTMENT OFFICER GILMORE: I had the same thought. And I think there are two things going on here. One is the expected return from the different asset classes doesn't actually vary that much, given current market pricing, but also it's the constraints that we've put on the modeling when we do the optimization. In fact, I could probably ask Sterling to give us more insights, if he's got anything additional to say or, Sterling, was my answer okay?

MANAGING INVESTMENT DIRECTOR GUNN: That's fine.

CHIEF INVESTMENT OFFICER GILMORE: Okay. I've had a approval for my answer.

(Laughter).

CHIEF INVESTMENT OFFICER GILMORE: Thanks, Sterling.

CHAIR MILLER: Yeah, because it seems that, you know, not having kind of the whole -- even just a little more active management would have the potential to really impact that a lot more. And that's kind of our -- one of our strengths, I think, going forward.

CHIEF INVESTMENT OFFICER GILMORE: Well, I would expect in the future, it depends on market pricing, to get a bit more from taking more active risk. But we can talk about that as we continue to do the portfolio work.

CHAIR MILLER: Okay. Director Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you and thank you, Mr. Gilmore, for your presentation.

With respect to this -- as you said, this is a very busy chart. With respect to the value-added for the risk-equivalent asset selection, now I noticed that the -- it's about 41 basis to about 42 basis across the spectrum When you were doing the modeling with respect to this, how did you model that process in terms of understanding -- because in getting -- in getting that, it includes all the private markets, private debt, leverage, the other components other than the passive. So if you can elaborate a little bit further on that.

CHIEF INVESTMENT OFFICER GILMORE: This time I will call Sterling up, but we started with our actual portfolio and the composition and -- coming up, Sterling.

CHAIR MILLER: No.

(Laughter).

MANAGING INVESTMENT DIRECTOR GUNN: Sorry. Once again?

COMMITTEE MEMBER PACHECO: So with respect to the value-add for the risk-equivalent asset selection, the modeling process, because it seems to be very tight from

40 -- from about 41 basis points to about 42 basis points.

MANAGING INVESTMENT DIRECTOR GUNN: Right.

COMMITTEE MEMBER PACHECO: So the actual -- the modeling or the process of arriving to that.

MANAGING INVESTMENT DIRECTOR GUNN: Right. And the reason for that is it's mostly driven by the private equity in the portfolio.

COMMITTEE MEMBER PACHECO: Um-hmm.

MANAGING INVESTMENT DIRECTOR GUNN: So even though the overall total equity mix is changing in our actual portfolio, we always have basically the same amount of private equity. It prefers that over the publics. So that's what's driving a lot of the -- that 0.4 that you see there. So it doesn't change much from one portfolio to the next.

COMMITTEE MEMBER PACHECO: So is that with respect to -- so our -- it's a value -- it's based on the trust review of the 40 percent right now relative to our private markets, correct?

MANAGING INVESTMENT DIRECTOR GUNN: And just the private equity for the most part, so the 17 percent.

COMMITTEE MEMBER PACHECO: Seventeen percent. So we're not in -- we're not taking into account the private debt or other components?

MANAGING INVESTMENT DIRECTOR GUNN: Yes, we are, but most of that difference is driven by private -- the reason it's insensitive, it's mostly driven by the private equity.

COMMITTEE MEMBER PACHECO: Oh, I see. I see. And is that -- is that -- over a long period of time, is that realistic? I'm just trying to understand.

MANAGING INVESTMENT DIRECTOR GUNN: With our current portfolio that's kind of what we see at the moment as well, like over the -- when we look at the planning horizons that we're looking at.

COMMITTEE MEMBER PACHECO: Okay. Very good.

MANAGING INVESTMENT DIRECTOR GUNN: We hope to change that and get it more diversified in the future, but that's something Steven was referring to finding more sources of alpha over and above just above the asset selection which we have there.

COMMITTEE MEMBER PACHECO: Oh, I see. So that -- and should -- okay. I understand now. And then with respect to the expected tail risk, the five percent of the worst, can you be elaborate a little bit about that, Mr. Gilmore?

MANAGING INVESTMENT DIRECTOR GUNN: Certainly. You want to take the Stephen or --

CHIEF INVESTMENT OFFICER GILMORE: No. I was just going to say that when you were doing this modeling, you worked with constraints, so you would have looked at an illiquidity constraint when doing the modeling, and that will also have implications.

COMMITTEE MEMBER PACHECO: That's what I figured.

CHIEF INVESTMENT OFFICER GILMORE: So if we had more illiquid assets, more illiquid private equity, for instance, you might see that value-add being a bit higher. So, that's why I say the constraints do play a big role here.

COMMITTEE MEMBER PACHECO: I see. And then the last -- the other question -- the only -- is the expected tail risk. You mentioned that it's the five percent of the worst cases. And how did you arrive at that.

CHIEF INVESTMENT OFFICER GILMORE: It's actually looking at the distribution, but if I go to the very end of this presentation, you will remember we -- sorry. I've got to -- if you -- if you go to this, you will remember that slide we had from last month, where there is some periods where you have very dramatic drawdowns, obviously the Depression years, the Global Financial Crisis, and so on. So when you look at that, it looks reasonable from, you know, the worst or the expected loss in the worst five percent of outcomes.

COMMITTEE MEMBER PACHECO: And this is how we weighted the tolerance of the losses over -- that's how we modeled it basically.

CHIEF INVESTMENT OFFICER GILMORE: I can check with the Sterling on the look-back period, but It would have been something like that. It would have been looking at actual distributions.

MANAGING INVESTMENT DIRECTOR GUNN: This was historic, yes. But for these simulations we were doing, it's the usual simulation methodology, the 5,000 paths --

COMMITTEE MEMBER PACHECO: Yeah.

MANAGING INVESTMENT DIRECTOR GUNN: -- on the other slide.

COMMITTEE MEMBER PACHECO: Very good then. Well, that's it. Thank you so much for your -- for your help.

CHAIR MILLER: Okay. Director Walker.

COMMITTEE MEMBER WALKER: I probably should have stopped. So explain expected tail risk to me again.

CHIEF INVESTMENT OFFICER GILMORE: It is the -- so it's talking about the worst five percent of outcomes, and it's looking at the average outcome in that worst five percent. So you're looking at a whole distribution. And so rather than looking at the very worst or the fifth worst, you're looking at that tail of the distribution and saying like what was the average loss in that. It's just one -- it's one measure. Technically, it's called a conditional value at risk. And there are many -- there are many different things we could look at, but that was just one we chose.

COMMITTEE MEMBER WALKER: Okay.

CHIEF INVESTMENT OFFICER GILMORE: It might be that the Board prefers to think about tail risk in another way.

COMMITTEE MEMBER WALKER: I can be honest. I don't think about tail risk.

(Laughter).

COMMITTEE MEMBER WALKER: I just want to make sure I'm understanding.

CHAIR MILLER: Okay. I'm not seeing any further questions, so let's continue.

CHIEF INVESTMENT OFFICER GILMORE: Thank you, Chair. Now, Sterling mentioned the traditional simulations, the 5,000 dots that you see. I wanted to think about that sort of more intuitively. And I've been thinking about it in the context of scenarios --

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: -- sort of macroeconomic scenarios. And that also, I guess, highlights the point about risk not just being volatility, but let's try and make it sort of feel more real in terms of what could happen economically. What I've done here is to plot inflation against growth and to look at -- well, I can't really say quadrants, because there are nine of these -- ninths, different outcomes. We have high inflation, low inflation, low growth, high growth, and so on.

And stylistically, an environment where you have low growth and high inflation to stagflation, which gets talked about from time to time, obviously, low growth, low inflation, recession, and you could also have, you know, high inflation, high growth, which is a boom overheating, or you could have a disinflationary boom, and you could be somewhere in the middle. I think the current market pricing is reasonably high inflation with a bit higher of potential growth in the U.S.

We can take all of those different macro outcomes and think about what the return outcomes might be. And we've done this stylistically here or Lauren has done it stylistically here based on some of our partners.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: We've gone through and looked at how our 70/30 portfolio would perform under these types of scenarios. Now, I wouldn't read too much into precise numbers, because we have to choose various growth and inflation outcomes, but there's -- the general sense is that a recession unsurprisingly is not good for the portfolio. You'll see that, you know, equities will decline, because you've got low growth and bonds are actually doing reasonably well, because inflation has come down, so bonds will rally, but the portfolio is down.

A worse outcome could actually be stagflation, where global equities will also get hit because of the low growth, bonds also get hit because of inflation. And we saw something like that a couple years ago when the central banks were a bit behind the curve and had to hike rates quickly and both equities and bonds came off. But stagflation can be quite a bad outcome for our portfolio.

That contrast with something like a disinflationary boom, where you get good growth, low inflation, so bonds are okay. Equities do well. The portfolio does well. And a boom as well, the portfolio can do reasonably well. So having a sense of what economic outcomes can be quite helpful when thinking about how the portfolio will perform.

Now, that 70/30, portfolio is a -- you know, a good representation of the current risks that we have in the portfolio. So when going back to think about that, you know, that table, the 70/30, is about where we are now. Yes, our portfolio has different asset classes in it. But in terms of risk, it's about where we are. And based on the responses that the Board gave last month, I got the impression that the Board's risk tolerance was probably somewhere in the range of around 70/30, 80/20, something like that. But, of course, we need to test that going forward, because it -- there were a range of responses.

So just thinking about that, think of that table, the 70/30, and those are the sorts of outcomes we might expect, given the various scenarios. But I want to use these scenarios sort of regularly as we go through to perhaps give a better understanding or better appreciation for what could happen in different environments. Hopefully, it's more intuitive than doing these simulations, Monte Carlo simulations, where you have 5,000 observations. You don't really know what may have driven you to each of those points when you've got -- when you've got all those simulations.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And you've seen that.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: I also wanted to talk about the -- what happens in terms of these distributions. One of the things the Board, the Committee looked at, you know, last month was drawdowns, declines, and didn't really want to see those declines last too long.

What happens, of course, is that on average those drawdowns are reasonably short, say a couple of years. And if everything is very nice, it could be less than a year. But as you take more risk, and you can see from that top line, you take more risk, that drawdown can be longer, especially, you know, in the tails or in the extremes. So when you've got a lot of equity risk, the reality is that you're more exposed to those negative shocks and a longer term drawdown.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And it's the same thing you saw with the expected tail loss, as we increase the equity exposure, the extent of the drawdown in tails increases.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: The other thing -- one of the other things we looked at last month was how long the return on the portfolio could deviate from let's say our discount rate. And what we've done here is to look at the 70/30 portfolio and we've looked at it over multiple horizons. So we've looked at five years, seven years, 10 years, 20 years.

Now, ideally, it would be great to be able to look at performance over fairly short period of time, but the reality is that there will be lengthy periods where the portfolio return will deviate, potentially substantially from the discount rate. Over the five-year period, over the seven-year period, and over the 10-year period, there are instances where the rolling returns are actually negative. Forget about just achieving this. There are periods where the actual return will be negative.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: So that has implications for how we think about the length of the period we should be looking at to assess, you know, performance of the portfolio, but it's just something to keep in mind.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: So just to recap, in terms of -- you know, the high level takeaways, again from last month, there seem to be a tolerance for taking somewhat more risk. Although, there was, as I mentioned, a range of views on the Board. More risk leading to higher expected return, higher funded ratio, and lower contribution rates. But at the same time, some exposure to greater potential drawdowns in bad events.

And, of course, there was a preference to try and recover from a loss over a shorter period rather than longer period, which is not surprising.

In terms of performance measurement just to recap, the focus being on absolute return rather than on relative returns or pair comparisons. Of course, the relative returns are also important, because with something like a reference portfolio, you want to know that the management has actually added some value over that. So you'll be looking that, of course.

And the Board was very open to innovation, more internal management, and looking at returns, you know, net of fees.

I'm having trouble with the clicker.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Ah, it's working

The next -- the next part of this discussion, I really wanted to focus on risk appetite. And that choice of risk appetite, of course, is one of the key decisions for the Investment Committee. The risk appetite can be expressed in many different ways. It could be simply a set of limits or a statement. Historically, the Investment Committee has done that through choosing a strategic asset allocation and also expressing policy ranges around that. But ultimately, you know, a formal risk appetite should set out portfolio risk limits, including the limits that that management can act within.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: So one of the current situation, as I mentioned, the strategic asset allocation sort of ties together the return, the discount rate, and the risk. And the Investment Committee goes through and formally approves a new strategic asset allocation every four years. It does an interim one every two years. And it's a little bit different under a total portfolio approach. And one of the things I've been doing and exchanging views with friends from Wilshire and others is to think about the analogies, because people keep asking what's the different between a strategic asset allocation and a total portfolio approach?

One of the things I think about is that the total portfolio approach seems -- is really more continuous. An SAA, you'll do the analysis and then you'll kind of sit for a while. Then you check in after a long period of time. With the total portfolio approach, it'a more to say more continuous.

But there are other ways of thinking about it. In the past, I've talked about the strategic asset allocation as optimizing at individual asset class levels and then adding up. Whereas, the total portfolio approach aims to optimize at the whole portfolio level and that should be more efficient. But one of the analogies I quite like is a cooking analogy. You can think about the objective. The objective is to feed your hungry family nutritious food on a budget. And you can do that by picking up a recipe book and following the instructions. That's very much the SAA. You've got all ingredients, but it could be that you can't find the ingredients, or they're not fresh, or they're too expensive, but you just follow that recipe.

A TPA is more flexible in that you've got the objective and you might want to look at what's actually fresh, you might want to sort of innovate a little bit. But the aim under either case is to provide that, you know, nutritious, cheap, tasty meal for the family.

So the SAA is sort of stricter in terms of the definitions with respect to each of the ingredients or asset classes in this case. Or if you think about a military analogy, the total portfolio approach is really one which is sort of look and command, where the objective is clear and then the team is tasked with achieving that objective and uses their discretion to achieve the objective.

So, having said that, risk appetite, the aim will be to come up with a reference portfolio comprising equities and bonds. We still have work to do in terms of defining exactly which equities and which bonds. What you have seen so far, the bonds have been U.S. treasuries, but we could use some other fixed income benchmark. We could have credit exposure in there. That is for us to, you know, continue thinking about through time. And then also to have some active risk limits, which would define how much discretion management could have.

At the moment, the Investment Committee has given management a reasonable amount of discretion, because we can deviate in terms of our listed equity exposure, plus or minus seven percent from the SAA. For fixed income, it's plus or minus six percent, for private equity, plus or minus five. And so you've got all these different ranges, and sometimes, you know, those ranges reflect different degrees of risk, and it's quite complex.

The active risk limit would be an overall risk limit, rather than an asset class by asset class risk limit. So we would hopefully have this reference portfolio with active risk and then we would go ahead and choose assets classes and so on.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Just a reminder on the reference portfolio, one of the -- one of the aims here is to have something that is simple, transparent, makes it easier to determine accountability, It's scalable. It's investable. It makes it easy. So right, now we have 11 different benchmarks with our strategic asset allocation. And it's sometimes quite hard to work out whether we've done a good job or not.

One could say that, okay, you take all these benchmark, you look at the portfolio and have we done better? But there are lots of nuances with all those benchmarks.

With a reference portfolio, it's much Simpler. The question is, has management done better than a simple off-the-shelf liquid portfolio? And everything gets aggregated up to that.

And with respect to the active risk limits, there's more work for us to do in terms of how we might define that. We would work very closely with consultants, Wilshire and Meketa, on just how that should be expressed. But the approach would really be to not seek anymore discretion than we currently have but to define it more simply and more clearly.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: In terms of the risk, I've talked about, you know, the reference portfolio, also talked about asset class collection. Haven't really talked much about deal and manager selection. But in terms of the hierarchy of risks, the biggest risk is reflected by the Board's overall risk appetite, which I hope will be expressed in the context of our reference portfolio.

The next biggest is actually the asset class collection selection. How much do we deviate within the ranges or within the limits that the Board has given us? And then it's about how we've actually chosen to make those investments through external managers, through particular deals we may do. But I think it's always helpful to be able to remind that particular hierarchy.

The biggest risk decision is, you know, how much overall market risk do we want. The next biggest one is how much discretion is management given? And then management will choose exactly how it implements that discretion. And that's a relatively small part of the risk picture.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And again, going back to the reference portfolio and the different asset classes, let's say we have the 70/30, global equities, government bonds. And of course, the Board may chose to have something quite different form that, but I've just used that, because that's currently approximately what we have. We have different building blocks. You can see those building blocks, cap-weighted equities. We could proxy that by having a hundred percent equities, because it's just equity. For something like private equity, here, we've expressed it as between 120 percent equities, 20 percent cash. So it's leveled a little bit. But it really depends on what sort of private equity it is. So venture capital will have a higher proxy than let's say buyouts, which we will be closer to just one for one.

You'll see something like infrastructure. Here, we've used 70 percent equities and 30 percent bonds, because some infrastructure is growth like, some will be more bond like. So we've got all these different component parts and we can aggregate them all up to get an overall 70/30 at the total portfolio level.

So, Chair.

CHAIR MILLER: And Director Ortega.

COMMITTEE MEMBER ORTEGA: Thank you. I just wanted to stay on this slide for a few more minutes. So can you go through what each of the boxes means a little more. I just want to make sure I understand like how private equity ends up being more than a hundred percent compared to the other items.

CHIEF INVESTMENT OFFICER GILMORE: Well, let's start with private equity. What we're trying to do is we're trying to risk match. And in the case of some types of private equity, perhaps venture capital for instance, you're going to have much smaller company exposures. They're going to be more volatile, so they're going to be riskier than would be the case of the usual capital weighted equity indices. So it's really about say risk matching.

There will be some things, and I mentioned there's infrastructure, but I could mention real estate, that will be less risky, because they will have contracted cash flows. They won't be necessarily so exposed to growth. You can think about it maybe in terms of, you know, if you did a, let's say, regression, looked at the volatility of all these different asset classes with respect to equities. I'm probably not coming through very clearly.

COMMITTEE MEMBER ORTEGA: Well, no, I think I'm getting that point. So when you then put all of the -- you assign these percentages or these risk values to each of the boxes, then that's how you add them up to get to the --

CHIEF INVESTMENT OFFICER GILMORE: That's right. And these are illustrative. So the actual will depend on, you know, the modeling we do and the actual strategies we have. But the point is here, these are aggregated. Some of the strategies will be -- will be quite different. If we're looking at core real estate, it's going to be less risky than value-add or opportunistic. If you're looking at some forms of infrastructure where you've got long term sort of supply agreements, off-take agreements contracted, it's going to look very bond like. But there are other things that will be very exposed to growth.

So, we will look at these weights on an investment strategy via investment strategy and they will vary.

COMMITTEE MEMBER ORTEGA: Okay. Thank you.

CHIEF INVESTMENT OFFICER GILMORE: But the idea is to try and risk match. So if the Board says, okay, we're comfortable with a 70/30 portfolio, management will look at constructing a portfolio that has the same -- the same sort of risk and it will use weights like this to do that. I would expect that the consultants will have a big role to play in validating the weights that we use, so you can be comfortable that the aggregation gets you to the portfolio risk levels that you're comfortable with.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: Okay. And here's my animation.

CHAIR MILLER: No questions.

CHIEF INVESTMENT OFFICER GILMORE: So essentially, it's basically taking all these bits and adding them up. So in the case of equity risk, you know, it was one for one. Private equity, a little bit more than one for one. And the idea is just to add them up to get the 70/30 portfolio that we talked about.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: With respect to performance, it can -- it can be quite -- it can be quite revealing. And what we'll do next month is actually show you what the performance would have been like if we had compared it with the reference portfolio. So you'll get the trust level review, but we'll also give you some reporting, because some of those, let's say, asset classes where you -- it looks like we have maybe underperformed, might actually look better. And some of the ones where we've, let's say, appeared to have outperformed may look worse, when we look at on risk match terms. So even though it will be the same portfolio, the conclusions may be a little bit different, but we'll discuss that next month.

In terms of this exercise, I wanted to look at the -- you know, the results over the last -- over a five-year period, 2017 to '21. Good performance from the PERF, 10.4, but it was less than what we received from the reference portfolio, 130 basis points different. So that time period, the PERF did less well than the simple off the shelf and mix.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: However, you go on -- go forward one year and you've got 2022 in there. The PERF, okay, 6.7, a bit worse, but the reference portfolio - if I can get my clicker to work - would have been worse. And partly that's because of the diversifying effects of the PERF with the actual asset classes that we have in there. So the time period is really important when thinking about, you know, the actual performance of the portfolio versus the reference portfolio.

[SLIDE CHANGE]

CHIEF INVESTMENT OFFICER GILMORE: And next steps. It's the timeline. Michele, do you want to make a couple of comments on that?

CHIEF FINANCIAL OFFICER NIX: Yeah. Thanks. Happy to do that. Okay. So you've seen this timeline several times, but we will continue to update it as we know more, but the goal here -- we're in February, so we're doing this ALM strategy session and risk App -- activity follow-up, which Steve had just performed.

But past that, we will try to educate our stakeholders in many ways and we're going to talk -- keep talking about it at the March IC meeting, again in June, at the July off-site. And the first reading of our outcomes for the experience study for the actuarial assumptions, discount rate, that kind of thing will happen in September, as well as hopefully the proposed reference portfolio, if we decide to go forward with a TPA approach. There will also be a strategy session, which will be closed.

And then all that goes as planned, the final proposal will come to you in November for approval for a whole strategy that we want to use to implement effective July 1st.

Also, I want to mention that, as of now, we've got webinars that we plan to also hold on top of all of this, which right now the schedule could change, but scheduled for April, July, and December for those webinars, so that we can bring our stakeholders along in a different medium besides the Board meeting, if they so choose to listen.

With that, I think that's the end of that, so Stephen will be happy take questions.

(Laughter).

CHAIR MILLER: Okay. Director Walker.

COMMITTEE MEMBER WALKER: Not a question, but a comment. I really appreciate the fact that we are being very thoughtful and deliberate about this process and taking the time to ensure that everybody is able to take -- you know, take the steps as we go. And if we have just -- so if we have a July 1st effective date potentially, right? So we're going through all of this. And what if, at the end -- I'm always a worst case scenario kind of person. So what if, at the end of the day, we get to November and say, no, we've gone through all of this and we don't -- what impact does that have?

CHIEF INVESTMENT OFFICER GILMORE: I think it still will have been worth it, because we'll have a better appreciation for the risks and the trade-offs.

COMMITTEE MEMBER WALKER: Okay.

CHIEF INVESTMENT OFFICER GILMORE: From my perspective, the actual changes that you see may not initially be that big.

COMMITTEE MEMBER WALKER: Right.

CHIEF INVESTMENT OFFICER GILMORE: But this approach will set us up to be more dynamic in terms of the component parts of the whole portfolio. So it's really about the enabling conditions.

COMMITTEE MEMBER WALKER: Okay.

CHIEF INVESTMENT OFFICER GILMORE: And the key is that understanding of all the risk trade-offs. It's not easy, right, because you'd like to generate high returns, but there's a -- there's a downside, and there's a judgment involved. And then there's that other question around, you know, how much discretion do you give management? You know, right now, in some respects, management has, you know, a reasonable amount of discretion, but doesn't feel comfortable using it.

With this approach, it's much harder to hide and, you know, management has to be more, I think, explicit about using that discretion that's given to it.

COMMITTEE MEMBER WALKER: And correct me, if I'm wrong, this will also give you the opportunity to walk through the change management that you're going to have to do in your department to get us to where we need to be.

CHIEF INVESTMENT OFFICER GILMORE: Absolutely. Absolutely. And one thing I think about, and I'll need to talk about Michele and Scott, is perhaps we need to give you a somewhat more detailed timeline in terms of some of those component parts as well.

COMMITTEE MEMBER WALKER: (Shakes head).

(Laughter).

COMMITTEE MEMBER WALKER: Sending you a secret signal.

CHIEF INVESTMENT OFFICER GILMORE: It's high level.

COMMITTEE MEMBER WALKER: Appreciate it.

CHAIR MILLER: Okay. Director Willette.

VICE CHAIR WILLETTE: Thank you. Thank you for the presentation. I really find it fascinating but all of this, in my view, is in order -- is so that we can pay our benefits, right? And I also think we have to be able to pay our benefits, we need liquidity, but I haven't heard liquidity as part of how we build the blocks together. So can you just briefly talk about how liquidity factors in to putting those blocks together, so that we hit the risk we need, we get the returns we need, we take the risk we need, but we also can pay our benefits at the end of the day?

CHIEF INVESTMENT OFFICER GILMORE: You'll hear more on this. If I was extending the timeline, I would probably have discussions on liquidity in here beyond November. And you're right, with the reference portfolio talking about something that is very liquid and with the actual portfolio talking about something that is less liquid. Now, for liquidity, there is a -- there's a tradeoff between at one extreme if you're very liquid, you can be very opportunistic and very dynamic versus some of the asset classes that are illiquid that we think are going to give us higher returns. Whether that's private equity, or private debt, or infrastructure, real estate, we think those asset classes, you know, could give us, or should give us, higher returns that the liquid equivalent. So you need to tradeoff that ability to be opportunistic versus the extra reward for locking up some liquidity.

But, of course, you don't want to lock up so much liquidity that it makes it difficult to pay benefits or costly to pay benefits. But I think we're a very long way from that. So there's a lot of modeling to be done in terms of the pros and cons of locking up that liquidity. One of the things we've been doing internally is to be, I guess, updating our analysis on that pricing of liquidity. So when we're looking at an investment, if it's an illiquid investment, we think, well, how much does it need to return, because we're giving up that flexibility?

And that work continues to advance, but in broad terms, you know, the first illiquid investments don't need to generate that much of an additional return, but as you get more and more illiquid assets, you want them to deliver higher returns, because you're using up some of that limited liquidity. So I'm not being too explicit in terms of the numbers, but there are quite a few complex inputs into pricing that liquidity.

So, it will be something that features when we have to construct the actual portfolio. And it may be that, you know, at some point, the Investment Committee wants to be more explicit about the liquidity constraints and limits.

VICE CHAIR WILLETTE: Thank you. That's my only question.

CHAIR MILLER: Okay. Director Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you.

I shut it off. Sorry

I'm on. Thank you.

Am I?

CHAIR MILLER: There you go. You're good.

COMMITTEE MEMBER RUBALCAVA: Thank you for the presentation. In the -- in the -- you know, I guess it was January we had our Board education. We talked about -- we did the survey or the exercise on risk appetite. One of the balances or trade-offs was the impact -- you know, we're trying to get to a bogey on a return assumption, but also because we know -- well, we're concerned about the -- at least I'm concerned about the impact on the employer contribution rate, the impact on like PEPRA employer and employee members contribution rate.

In September is when we're getting presented with the experience study and actuarial assumptions. And those that exercise, that experience studies, what will impact actuarial assumptions and discount rate, and that in turn will also impact contribution rates? So how does the timing work or -- and/or how does the -- that actuarial process, how does that impact the total fund approach?

How -- is there -- is it different under this approach versus the strategic allocation we're used to?

CHIEF INVESTMENT OFFICER GILMORE: We'll pass to Scott, because the three of us are actually working very closely on this.

CHIEF ACTUARY TERANDO: Yeah. In terms of the interaction, in the end, it's going to -- it's going to be the same, whether we have a strategic asset allocation or TPA. You know, the Actuarial Office is working on the experience study and reviewing past experience, and developing new assumptions going forward. And, you know, that's kind of like an independent process. You know, it's removed from any of the asset allocations.

What we'll do -- so, you know, that process is generally the same. Where a little bit difference comes in is how we work with the Investment Office developing the discount rate. You know, we're going to be working -- you know, with the strategic asset allocation, we had capital market assumptions, we had an asset allocation, and, you know, that kind of just went right to, you know -- help this, you know, go right to our discount rate in terms of each of the asset portfolios.

It's a little bit different process with this. It's -- you know -- as, you know, Stephen mentioned, we have a reference portfolio, but then you're going to add some active -- you know, there's going to be some adjustments to that passive portfolio to become an active portfolio. And so we have to kind of start with like where are we with the passive portfolio and then we add in, you know, what kind of changes is there going to happen?

We get almost to the same point in terms of we're going to end up with the portfolios -- a final portfolio under various scenarios. And then we'll see how that compares with, you know, the capital market assumptions and that gives us a range for the discount rate.

But when we present those results in September, you know, it's going to be the full package where when you see the different portfolios, it will include the new assumptions, impact on contributions, funded status and everything. So you see everything at once, so you don't -- they're not separate and then you have to add things together.

COMMITTEE MEMBER RUBALCAVA: Thank you. I think I'll wait a little bit until I understand the process a bit better. Thank you.

CHIEF ACTUARY TERANDO: Sure.

COMMITTEE MEMBER RUBALCAVA: I need to see it.

VICE CHAIR WILLETTE: All right. Any other questions from the Boar members or Committee members?

Okay. Seeing none, we'll go -- we do have some public comment on these items. The first public commenter -- we have three public commenters. This first is J.J. Jelincic.

J.J. JELINCIC: Good afternoon. J.J. Jelincic, RPEA.

The total portfolio concept actually makes a lot of sense. And I will remind you that Ben Meng had tried to push you in this direction earlier. Management has a lot of discretion in the current SSA, strategic asset allocation, model and they haven't used it. I haven't seen anything that would indicate that that discretion will be used in the new model. Maybe it will, but if there's a change in motivation, then that change to use more of the discretion ought to be explained.

If the portfolio is going to be based on the Board's risk tolerance, which again makes a lot of sense, I think it's really important to be able to define risk and risk adjustment for lending to people and companies who are incapable of borrowing from banks or in the public market. Obviously, there's some risk there and we need to develop a analytics that helps us understand what that is.

Private equity again, you know, how do you risk adjust it when the higher returns that you've seen historically, and quite frankly the trend has been downward, really is based on the GP's conflicted assignment of the value of the portfolio? You know, at the stakeholder's forum, I asked the question how do you risk adjust private equity portfolio? I got a lot of words but not a lot of answers, but I think that's something you really need to think about.

Two other observations. The current asset allocation, the last time you published it was in September. November, you published the September results, so it's getting kind of stale. And I noticed that you're doing a closed session on this item later. The Bagley-Keene Act allows the Board to meet in closed session to make investment decisions. It's been made evidently clear that you are not at the position of making an investment decision yet. But then I also recognize that the Attorney General has said he will not enforce Bagley-Keene. His job is to represent the agencies when they violate it. And I also recognize that, you know, CalPERS picks and chooses which parts of which laws they choose to comply with.

In all, I think this is a reasonable approach and I would encourage you to continue to develop it, but look at the questions that are in there. Thank you.

CHAIR MILLER: Yeah. Thank you for your comments.

Next, we have frank Ruiz followed my Mark Swabey, and Jose Martinez.

You have the floor, sir.

MARK SWABEY: Thank you. Yes, I will speak first.

Thank you for allowing me, Mark Swabey, an opportunity to address the CalPERS Investment Committee, guests, and CalPERS staff. And congratulations to, you David and Mullissa, on your elections.

I want to talk about private equity in terms of the ALM, the asset liability management, or vice versa. In the total portfolio approach proposal that I've -- that I've seen. It's not the full proposal, but the estimated time length for private equity contracts is five to 10, years which is -- makes it a long-term illiquid investment going forward.

In contrast, CalPERS current private equity portfolio out of 381 contracts, which were identified in 2024, 137 or more than 33 percent, more than one-third of the contracts are more than 11 years old, some dating back to 2007, one dates back to 1998. Now, we think that this is pretty darn risky to the entire -- both to the asset class and the entire portfolio carrying these old contracts.

Reinvestment contracts may be given and to keep these alive. But the biggest risk, according to Mr. Marks, is missed opportunities. And I haven't heard a word of that so far in the presentation or in prior comments. So, we're missing out on some decent opportunities in more liquid assets by keeping these old contracts. And one possibility to fix this is not only to just exit those old contracts, accept the fees, and take what revenue you get from those, and put them into some dividend-paying stocks. I haven't seen much of dividend-paying stocks as part of our overall stock port -- asset class or our portfolio. But some high-yield dividend stocks in asset management indus -- in the asset management industry may help us get more money for our -- for these -- more returns from that particular asset class of public equity.

And dividends also help you get closer to doubling time as a benchmark for your asset class.

Thank you.

CHAIR MILLER: Thank you for your comments.

And next, Mr. Ruiz.

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

Welcome back to the upside down substandard deviation world of private equity nightmare investing.

Like Humpty Dumpty, CalPERS private equity, PEP, contracts are sitting on a wall. As we know Humpty plunges down the and shatters into pieces. CalPERS as well in its PEP contracts are falling into pieces with no omelet to show for it. When these contracts renew for years, CalPERS reinvests whatever small return has been made into a new five to 10 year contract. The pattern has been repeated over, and over, and over again for a minimum of 26 years.

For at least the last 26 years, CalPERS has been investing in a very high risk program with minuscule returns. The lost investment opportunities have been horrendous. This is the Big Bertha element -- elephant in this room, the $2 billion return from an investment of $134 billion speaks for itself.

On January 13th, 2025, Mr. Howard Marks from Oaktree Management shared how standard deviation helps investors know if their investment decisions are producing investment returns or not. One rule Mr. Marks stated was higher risk can produce a higher rate of return. The graph he showed had the graph line going upward. This is how normal investing works. In contrast, CalPERS listens to upside-down consultants, Tweedle Dee and Tweedle Dum. But in the upside-down world of nightmare private equity investing, the substandard deviation graph line goes downward. CalPERS is investing in the highest risks possible with tiny returns and then reinvesting returns in new contracts or in contract extensions. Listening to Tweedle Dee and Tweedle Dum continues a downward spiral.

Furthermore, money may be borrowed from more successful asset classes or member contributions further reducing CalPERS funds to invest in future investment opportunities. Also, the '23-'24 annual comprehensive financial report stated that the private debt and public equity returns 17 percent. Private equity missed the industry standard of 13 to 17 percent with its 9.3 return. Private equity possibly lost between 3.7 and 7.3 or higher returns last year. Again, private equity met its substandard deviation prediction of below its 13 to 17 percent benchmark with minimal returns.

Also, in November, 2025, is D Day month. CalPERS has nine months to review asset classes' past performance before deciding to adopt the total portfolio risk program. Further, it allows Mr. Howard Marks standard deviation to show which program have past successful results and which don't. CalPERS needs to look outside its investment box to see how current events are shrinking pension fund dollars.

The Palisades and Eaton fires have been projected to cost California increases in mortgage rates, car insurance, health care costs, inflation, gas price increases, and many other unforeseen costs, such as eggs at or near $1 an egg. CalPERS needs to consider a paradigm shift away from wasteful investments in the private equity program and invest in annual paying billion dollar asset classes. Thank you for your attention.

CHAIR MILLER: Thank you, Mr. Ruiz.

Okay. Next, we have Jose Martinez. And we'll follow them with LR Roberts.

LR ROBERTS: I'll withdraw mine and come back tomorrow.

CHAIR MILLER: Okay.

JOSE MARTINEZ: Good morning. My name is Jose Martinez. I'm a butcher at Cardenas Markets at Store 11 in Riverside, California.

I've come here today to tell you about an accident at work -- at my work managers did not take seriously. On the evening in November of last year, I began cutting pork neck, which I do most days. Unfortunately, as I was working, I split my middle finger in half. It's almost cut right down the middle.

They wrapped my finger and placed it over a trash can for 15 minutes after I told my supervisor. Then they took me to HR for about three hours while they continually tried to reach one of their nurses on the phone. Eventually, they told me to go to Concentra, their office, which is the urgent care -- the company that does the urgent care at Cardenas. When we got there, it was closed and the HR person just left me there, and that someone -- else would pick me up at a later time. I waited for about 45 minutes before the new assistant manager came. This whole time my finger was still bleeding literally.

Instead of taking me to the hospital or the emergency room, he literally just took me to work and Told me to clock out. He didn't ask if I needed a ride or if I wanted to go to the hospital or anything. I walked to the hospital from about 8:30. I got there about 9 o'clock at night.

A week and a half later, I was sent back to work with restrictions. However, management ignored those restrictions. As a result, my finger got severely infected and the situation got worse. I spent the last few weeks and last rest of this month fighting with Cardenas and their health provider to get me the treatment I needed and the compensation I am owed. Cardenas's response on this day of my injury and after put me in a serious danger. My finger hasn't fully recovered now. I have a workers' compensation attorney to help me get what I am owed. However, I should not need a lawyer to enforce my rights to be safe at work. I am a human.

Thank you.

CHAIR MILLER: Thank you.

Jared.

JARED GABY BIEGEL: Yeah. Hi. My name is Jared Gaby Biegel with the United Food and Commercial Workers International Union. I'd like to update the Board about labor risks at Cardenas markets, a California-based grocery chain owned by Apollo Fund IX, a $550 million investment of yours.

For two years, we have informed the Board of labor risks at Cardenas Markets as they have grown, and we have documented Apollo's violation of each of your private equity Labor Principles, except for the one involving child labor. Now, Apollo will seek commitments for its newest private equity fund, Apollo Fund XI. We urge you to take concrete steps to enforce your private equity Labor Principles at Apollo before you consider any future investment -- Apollo investment.

Since we spoke to the board in November, we have learned of two new class action lawsuits, which were filed against Cardenas in 2024 alleging violations of California's Labor Code regarding pay, overtime, meal break, and rest break violations. One was filed in Los Angeles County, one in Santa Clara County, and Cardenas is seeking to compel the Santa Clara case to arbitration.

We had previously informed you of a pattern of settling class action lawsuits involving Cardenas's labor record without admitting wrongdoing and identified litigation complaints as labor risk to your investment. Cardenas settled class action lawsuits, alleging California Labor Code violations without admitting wrongdoing in 2023 and 2024, with the settlements costing a total of $4 million.

One such case alleged pay, overtime, meal, and rest break violations. The other alleged violations of a regulation to provide seats to cashiers. Prior to Apollo's acquisition of Cardenas, the company settled an earlier class action in 2021 alleging meal, rest break, pay, and overtime violations without admitting wrongdoing at a cost of $6.5 million. I want to reiterate that of CalPERS's five Labor Principles, we have provided examples which violate four of them.

One, we believe the allegations stated in the current class actions involving meal, break, and pay violations like those alleged in settled cases are examples of Cardenas not complying with CalPERS Labor Principles entitled, "The Elimination of All Forms of Forced or Compulsory Labor?

Two, we believe Cardenas has violated your freedom of association Labor Principle. We told you in November that the National Labor Relations Board has filed a complaint against Cardenas. In the case of Rosalba Martinez and a co-worker alleging that Cardenas has been interfering with restraining and coercing employees in the exercise of their rights guaranteed under the National Labor Relations Act to choose freely whether they want to form a union or not. The government is taking Cardenas to trial over Ms. Martinez's case.

Other workers have told CalPERS about managers leading anti-union meetings and workers have described experiencing retaliation for their union activity in violation of the same labor principle.

Three, you have heard from workers who experience violates your Labor Principle entitled, "A Safe and Healthy Work Environment." Jose just told you about that. Today.

Four, Cardenas workers have commented on acts of discrimination at work, examples which we believe violate your Labor Principle of elimination a discrimination. Ms. Valeria Alvarez's lawsuit alleging sexual harassment and retaliation for reporting sexual harassment is a prime example.

Apollo is violating your Labor Principles and its own workforce principles at Cardenas. Apollo has said that they leave labor management up to portfolio companies, abdicating responsibility to uphold your Labor

Principles or its own.

Thank you so much.

CHAIR MILLER: Thank you. Thank you. Appreciate your comments. I think that concludes our public comments, unless we have anyone on the phone. And I think LR Roberts indicated that they didn't need to speak at this time. So I want to make sure I got that right.

Okay. So that concludes public comment and I believe that concludes this meeting. And so we will now go into closed session. We'll recess into closed session, then we'll immediately reconvene in open session after the closed session.

Thank you.

(Off record: 2:31 p.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 3:36 p.m.)

CHAIR MILLER: Okay. We are back in open session. And hearing no objection, this adjourns this meeting. Thank you.

(Thereupon, the California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 3:36 p.m.)

CERTIFICATE OF REPORTER

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

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

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

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

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