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CalPERS board discusses racism, approves new investment policy

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Henry Jones, CalPERS board president, said the pension fund has 'a moral imperative to confront racism and economic inequality.'

CalPERS' board discussed systemic racism and vulnerable workers before moving on to its agenda and approving a new total fund investment policy.

The board on Wednesday also opted to make no changes to the incentive plan metrics for some staff members and incentive measures for CEO Marcie Frost.

Before the board considered the agenda, Henry Jones, president of the CalPERS board, took a moment to speak about the \$386.9 billion California Public Employees' Retirement System's role in addressing systemic racism.

"Our country, and in fact our world, is on the precipice of change ... the type of change that births an awakening to the

racial and economic inequalities that exist in societies where people don't really see each other or see ourselves in one another," Mr. Jones said.

The killing of George Floyd on May 25 was "inhumane and jarring," and is "yet another reminder of how far we have to go in our nation and our communities and our public and private institutions," Mr. Jones said.

"I grew up in the segregated South, and I knew what racism was and what it felt like," he said. "And despite working as a public employee for 37 years serving children and employees of Los Angeles Unified School District, and now serving as the first black president of CalPERS' board of administration, I still know what racism feels like."

As the largest pension plan in the U.S., CalPERS has "a moral imperative to confront racism and economic inequality," he said.

Board Vice President Theresa Taylor then spoke about personnel as a risk and opportunity in its portfolio and the plight of front-line workers, including grocery workers, transit workers, warehouse workers, meat processing plant workers, cleaners and others who are high-risk employees who do not have employer-supplied health care, Ms. Taylor said.

They "had to fight to be provided with personal protective equipment and sanitized workplaces," she added. "Just as we came to understand that climate change poses a risk and opportunity across our portfolio, so too does (personnel) management," she said. CalPERS will have a session at its annual off-site meeting to consider personnel, Ms. Taylor said.

"I applaud CalPERS for its history of work on (personnel) management which is inclusive of diversity at CalPERS and diversity on corporate boards ... but it is not enough," Ms. Taylor said. "We need to push harder."

The percentage of African Americans on corporate boards is 3.9%, the percentage of women is 21% and all people of color on public boards is less than 10%," Ms. Taylor said.

Turning to its action items, the board approved its investment committee recommendation to amend its total fund investment policy. The policy raises the maximum target for its opportunistic strategies to 5% from 3% and gives the staff discretion to invest with opportunistic strategies external managers. The new investment policy also increased its buyout target allocation by 5 percentage points to 70%, with a range of 60% to 80% and reduced its credit allocation by 5 percentage points to 5%, with a range of zero to 10% of its \$27.2 billion private equity portfolio.

The board also approved the fiscal year 2021 incentive metrics and CEO incentive plan measures without making a change. CalPERS' fiscal year 2021 budget includes \$19.4 million for all incentive awards, up from the actual incentive awards paid across all incentive programs in fiscal year 2019 of about \$11.2 million.

In its report to the performance, compensation and talent management committee, the board's primary executive compensation consultant, Grant Thornton, recommended that the board consider expanding participation of the long-term incentive plan to include the CIO and potentially non-investment office executives.

Two board members, Lisa Middleton and Jason Perez, voted

against the plans. During board discussions before the vote, both said they preferred CalPERS rely on higher salaries over incentive plans.

"I believe as a public employer, admittedly unique public employer, our compensation packages should be weighted towards salary not towards performance bonuses," Ms. Middleton said.

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