

November 13, 2018

California Public Employees Retirement System (CalPERS)
Board of Administration
400 Q Street
Sacramento, CA 95811

Dear CalPERS Board Members,

As the manager of the largest public pension fund in the United States, serving nearly 2 million people, CalPERS has a unique obligation and a rare opportunity to set an example that pensioners, not political agendas, come first when it comes to retirement fund management. That's why the fund's recent decision to sign onto a letter asking the Securities and Exchange Commission for expanded regulations on publicly-traded companies related to environmental, social and governance (ESG) principles was so disappointing. Such principles have nothing to do with prioritizing the financial future of pensioners. We urge CalPERS to denounce this ESG investment strategy when it diminishes the financial returns for pensioners and retirees in our state. It is not the role of the SEC to promote these misguided regulations.

With an unfunded liability of \$168 billion, CalPERS has much work to do to get back to investment strategies that produce healthy returns and ensure that workers' retirements are fully funded. And while there is nothing inherently wrong with promoting ESG principles, more feel-good policies won't do anything to move the needle toward stronger financial returns. In fact, research from the University of Tennessee shows that such activism tends to generate lower stock returns. This troubling trend runs counter to CalPERS' obligations.

Rather than focusing more energy on political and social causes, CalPERS must uphold its fiduciary responsibility by providing a solid retirement for a lifetime of work by investors and beneficiaries. By doing so, the fund, along with other major pensions such as the California State Teachers Retirement System, can set a strong example of how to generate the maximum return for pensioners. This is particularly important right now, as some city residents in California are now paying 50 cents into CalPERS for every dollar that goes towards police officers' salaries, and could soon find those payments increase to 75 or 80 cents. Taxpayers shouldn't be asked to pay more due to CalPERS' ill-advised focus on social activism rather than fund profitability.

Hopefully, the election to the CalPERS board of Corona, California, police sergeant Jason Perez will herald a new day for CalPERS and a return to sensibility. Perez unseated Priya Mathur, who was a chief engineer of steering fund investments towards social activism, including ESG principles, an approach that produced lower returns in recent years. In fact, according to Mr. Perez, the unfunded liability during Priya Mathur's 15-year tenure grew by \$100 billion, an outcome that showed clearly that Mathur had "failed CalPERS and put our retirement security at risk due in part to environmental social, and governance investing priorities, regardless of the investment risk," according to Perez. We agree completely.

CalPERS membership has spoken with a clear voice that it wants fund leadership to focus more on investment returns as opposed to solving social or political issues with retirement money.

CalPERS should be exercising its fiduciary responsibility, not playing politics or attempting to fix social or government shortcomings. We support Mr. Perez's platform of ensuring the board direct the staff to make risk-adjusted investments for the benefit of pensioners. Only by maintaining a clear focus on fiduciary responsibility and strong returns can CalPERS pursue its mission of securing our retirement and safeguarding the money we worked hard to earn.

Sincerely,

Yasha Nitikin
President, Huntington Beach Police Officers Association

Jerry Amante
Former Mayor, City of Tustin

Steve Crouch
Director of Public Employees, Stationary Engineers Local 39

Keith Curry
Former Mayor, City of Newport Beach

Theresa Harvey
President/CEO, North Orange County Chamber of Commerce

Dave Harrington
Mayor, City of Aliso Viejo

Jon Lopey
Sheriff, Siskiyou County

Mike Posey
Mayor, City of Huntington Beach

Jim Righeimer
Councilmember, City of Costa Mesa

Carlos Solorzano
CEO, Hispanic Chambers of Commerce of San Francisco

Kirk Uhler
Supervisor, Placer County

Bill Young
President, Riverside County Deputy Sheriffs Association

Cc: Jason Perez, CalPERS Board Member-elect