CalPERS Board of Administration 2018 Public Agency Representative (Incumbent)

Profession: BART, Principal Financial Analyst, Infrastructure Investment Planning.

Education: MBA, UC Berkeley, Haas Business School; BA, Connecticut College

Priya Mathur

CANDIDATE STATEMENT

STATEMENT:

My priorities:

As President of the CalPERS Board, I am laser-focused on protecting the pension fund's long- term sustainability. Since joining the Board in 2003, I've worked with all stakeholders—employers and employees—to protect the fund, ensure viability of pensions and provide access to quality, affordable healthcare. I would be honored to earn your vote.

Provide Top-Notch Healthcare While Reducing Costs By:

- Continuing industry-leading innovative healthcare solutions
- Aggressively negotiating premiums
- Flexing CalPERS' market power

Achieve Investment Goals and Manage Risks to the Fund By:

- Setting realistic rate of return targets
- Optimizing investment portfolio
    1. Stocks: Drive returns with diversified portfolio
    2. Bonds: Mitigate risk and deliver moderate return
    3. Private Equity: Achieve higher returns over target
    4. Real Estate: Produce cash flow used to pay pension benefits
- Increasing long-term shareowner value by engaging corporate boards and demanding accountability:
    1. Fossil fuels: Working with investors to encourage companies to address climate change risks in business strategy
    2. Gun retailers: Engagement led to Dick's Sporting Goods and Walmart to cease selling assault-style weapons and accessories.
    3. Anti-privatization: No private equity investments in companies that privatize public jobs
    4. Board Composition: Studies show more diverse companies perform better; Encourage companies to improve diversity
- Delivering investment management value:
    1. Insource CalPERS investment management where we can hire and retain talent and skill
    2. Pay outside managers for above market performance

CalPERS Board of Administration 2018 Public Agency

Member Representative Candidate Questionnaire

The following questions were given to both candidates for the CalPERS Board of Administration Public Agency representative. Their responses to these questions have not been modified. While the League does not endorse candidates for any elected office, the responses to this questionnaire will be made public on the League's website and distributed through various League of California Cities communication vehicles including its newsletter, social media platforms, distribution lists and other forms of earned media. In addition, the League will share these responses with member cities to distribute to their employees to help inform their voting decisions.

The following are the responses sent to the League of California Cities by Candidate Priya Mathur

1. **What is your perspective on the long-term sustainability of CalPERS Public Employee Retirement Fund (PERF)? How does this perspective inform your understanding of what that means for current members, local agencies and current/future retirees?**

The sustainability of the fund is at the core of any decisions made by the CalPERS Board and the executive team. My priority is to ensure that CalPERS members can count on their pensions when they retire. There are many paths a Board member can take to preserve the fund's sustainability. In making any decision, the Board must weigh the impact on public employees, employers and, ultimately, the long term sustainability of the fund with nearer term funding improvements.

As you will recall, the Global Financial Crisis of 2007/2008 resulted in material investment losses for the CalPERS fund. These investment losses, in combination with demographic changes, particularly mortality improvements, significantly impacted the funding status of CalPERS retirement plans.

At the same time, the Global Financial Crisis had a profoundly negative effect on the revenues of cities and other public agencies across the State of California. This revenue loss resulted in furloughs, service cuts and reductions in force at many cities and public agencies. This, of course, made it challenging for public employers to absorb contribution increases. It also caused the active to retiree ratio to decline, putting pressure on CalPERS' cashflow position, whereby benefits paid to retirees exceed pension contributions received.

The CalPERS Board and executive team took a measured approach to addressing the funding status. Understanding the pressures employers and employees were under in the wake of the Global Financial Crisis, we believed it was advisable to allow some time for employers to recover.

Over the past two years, I have demonstrated that I am willing to make the difficult and important decisions necessary to ensure the sustainability of the fund. These decisions were not made in a vacuum, but in close consultation with stakeholders—employers, local agencies, employees and retirees.

CalPERS has:

- Recovered much of our funding status after the global financial crisis of 2007-08;
- Worked with stakeholders—employers, employees and other stakeholders —to prudently address funding levels and the sustainability of the fund by:
  - Appropriately raising employer contributions, balancing the need to improve the funding of the system with employers' ability to pay
  - Changed the number of years over which we amortize, or spread out, the unfunded liability to make more substantial progress towards full funding
  - Responsibly setting a realistic discount rate
  - Accounting for demographic changes in life expectancy
  - Adopting a Risk Mitigation Policy which will allocate excess returns by dedicating half to buying down employer contributions and half to reducing the risk of underperformance

» Led investment market efforts to keep investment fees low, reduce risk and improve performance of money managers.

- Established innovative initiatives to drive improved health outcomes, while containing costs and preserving access to care
- Set investment policies that protect public sector jobs

» Worked with the State to contribute an extra $6 billion to the fund which:

- Returned CalPERS to a positive cash flow position, where we are collecting more in contributions than we are paying in benefits— this means we can put every dollar to work and don't need to sell investments to make benefit payments
- Improved fund health.

The change to the discount rate and amortization policy have increased local employers contributions. But the increases were agreed to in close collaboration with local agencies, made gradually and necessary to keep the fund sustainable. Specifically, following consultation with employers, the Board decided to phase in the discount rate change – reducing it from 7.5% to 7% over three years. It is always on the Board's mind how these changes impact employers' ability to pay.

Another important effort by CalPERS to protect and improve the sustainability of the fund is our work to engage companies on governance and risk. We can't keep our heads in the sand. If the Global Financial Crisis has taught us anything, it is that we need to hold companies, corporate boards and investment managers accountable and be vigilant in managing risks that could diminish investment performance or lead to significant investment drawdowns.

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2. What is your philosophy on the concept of divestment as well as economic, social and governance (ESG) investment strategies as a means to earn maximum investment returns?

I do not support divestment and my voting record reflects that position. Divestment implies making an investment choice without consideration of the impact on investment risk or return. I firmly believe that investment decisions must be made with a primary view to achieving the optimal risk-adjusted return.

I do however believe that CalPERS should use its long-term shareowner status as an institutional investor to engage companies on reducing risk and supporting ESG strategies that lead to increased shareowner value.

Respected and detailed research shows that boards and companies with greater diversity post stronger returns to investors.

There are sound fiduciary factors as to why companies should consider the risk that climate change poses to their business models. In our state and throughout the planet, communities and corporations face both economic and structural threats from rising sea levels, fires caused by droughts, food supply disruptions brought on by changing weather and flooding and mudslides resulting from more intense storms.

Studies also show that corporate boards with good governance practices and risk management strategies make decisions that add to long-term shareowner value.

The CalPERS Board would not be fulfilling its fiduciary duties if it ignored ESG strategies that create greater shareowner value.

These factors are relevant not just in public equities, but across the portfolio. For example, CalPERS must consider the potential impact of sea level rise on real estate investments in coastal communities. This risk could impact the insurability of properties and, ultimately, property values in our portfolios.

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3. Retirement security is the primary goal of every defined benefit plan — however, there are several ways to work towards that goal. What do you believe should be the primary focus of the CalPERS Board of Administration and CalPERS staff to achieve this goal? How have/ would you work with your Board of Administration colleagues and executive staff to achieve this goal?

As thoroughly discussed in my answer to Question 1, ensuring the sustainability of the fund is critical to preserving the retirement security that defined benefit plans provide. It is a multifaceted approach that includes setting a realistic discount rate and amortization rate, holding money managers accountable, keeping costs and fees low, and having a balanced asset allocation—domestic and international stocks, fixed income, private equity and alternative investments including real estate—. I supported dropping volatile and fee heavy hedge funds from CalPERS portfolio.

The answer in Question 1 also goes into detail on how I have worked with Board colleagues and staff to achieve sustainability.

I believe the Board has raised contributions as much as public employers can absorb at the moment. We must work to identify opportunities to enhance investment returns without unreasonably raising the risk of the portfolio. In my mind, this means increasing our allocation to private equity – the only asset class that is expected to deliver returns in excess of our target rate of return over the next decade. However, such an increased allocation cannot be done capriciously. It requires a methodical approach with investment mandates to strong managers with carefully crafted strategies and clear expectations.

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4. **Are you concerned that rising costs may lead local public agencies to make drastic cuts to public services including layoffs or potential agency insolvency? If so, what are steps that the Board of Administration can take in the short- and long-term to address this vulnerability?**

The Board has demonstrated that it has and does consider the impacts of its decisions on public agencies. We must continue to balance these impacts with the requirement to make meaningful progress towards full funding of the retirement system. Central to achieving this balance is continued consultation with employers and employees. I welcome any opportunity to engage in dialogue with employers.

As I articulated in response to Question 3, I believe we must now turn to improving the investment returns, primarily by wisely increasing our allocation to private equity.

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5. ***Understanding that the system is based on a partnership between employers, employees, retirees and CalPERS, what is your philosophy on the most effective strategies to collectively engage these stakeholders?***

It is particularly incumbent for Board members elected by plan participants to engage in outreach to stakeholders—employees, employers, retirees, state and local elected officials and community and opinion leaders. I take seriously my role in engaging with members and the greater California community and welcome the opportunity to speak, listen and learn from our members.

The Board has historically played a role in educating all Californians on the positive impact that defined benefit plans have on our state and local economy. One of my top priorities as Board President has been to work with the CEO to develop an even more proactive approach to messaging—one focused on busting myths with facts. You may have noticed this more proactive approach in the media and in the CEO's speaking engagements. This is an essential component of defending public pensions against those who would eliminate them.

The CalPERS Board has also set stakeholder engagement as a key priority for our executive team and has incorporated it into performance plans.

In addition, CalPERS is the second largest provider of health care in the country. As a former long-time chair of the Health Benefits Committee (now known as Pension and Health Benefits Committee) I worked closely with public agencies on providing quality, accessible and affordable health care including helping to implement the regional pricing for agencies. The methodology and results of regional pricing are now under review, with several items scheduled at the Pension and Health Benefits Committee over the next several months and culminating in a recommendation of potential changes in December. I invite public employers to engage in this dialogue.

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