VIDEOCONFERENCE MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

ZOOM PLATFORM

MONDAY, APRIL 19, 2021

11:40 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Rob Feckner, Chairperson

Eraina Ortega, Vice Chairperson

Margaret Brown

Lisa Middleton

Stacie Olivares

Theresa Taylor

Shawnda Westly

BOARD MEMBERS:

Henry Jones, President

Fiona Ma, represented by Frank Ruffino

David Miller

Jason Perez

Ramon Rubalcava

Betty Yee

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Pam Hopper, Committee Secretary

Michelle Tucker, Chief, Human Resources Division

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic

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PROCEEDINGS

CHAIRPERSON FECKNER: Good morning. It looks like our assigned time has arrived. We'd like to start -- call the meeting to order. So the first order of business will be to call the roll, please.

Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Here.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly.

COMMITTEE MEMBER WESTLY: Here.

COMMITTEE SECRETARY HOPPER: Mr. Chair, all is in attendance for the Performance, Compensation and Talent Management Committee.

CHAIRPERSON FECKNER: Thank you.

Item 2 is the approval of the April 19th

Performance and Compensation Committee time agenda. What's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

COMMITTEE MEMBER BROWN: Second.

CHAIRPERSON FECKNER: Moved by Ms. Taylor, seconded by Ms. Brown.

Any discussion on the motion?

Seeing none.

Ms. Hopper, please.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Theresa Taylor, seconded by Margaret Brown, all ayes, for Agenda Item 2 the approval of the April 19, 2021 Performance, Compensation and Talent

Management Committee timed agenda.

CHAIRPERSON FECKNER: Than you.

Brings us to Item 3, executive report. Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Thank you, Mr. Chair. Doug Hoffner, CalPERS team member.

Today, we have three items before the Committee. One is an information Committee education session to be provided by your Global Governance Advisors, the Board's independent incentive compensation consultants.

We also have two action items, one related to long-term incentive for the Chief Investment Officer position. This is something that was presented back in the fall prior to the coming on board of your new consultant. And the Committee asked for that to be deferred and delayed until they could analyze it and provide their feedback, which they have done, and we'll talk about today.

And secondly is a review of the incentive metrics with several recommendations for those metrics, which is required by our policy related to an annual review of those items. That do have, I think, several recommendations and then two items within that memo to the Committee and the Board suggesting some items be reviewed in the future for consideration.

With that, Mr. Chair, that concludes my comments. I'm happy to take any questions.

CHAIRPERSON FECKNER: Thank you, Mr. Hoffner. Seeing no questions, except for mine. Looking at the agenda, Item 6 is going to be quite lengthy. Is it -- either you or Ms. Tucker can tell me, could we take 7 ahead of 6, or is that not going to work that way?

CHIEF OPERATING OFFICER HOFFNER: So, Mr. Chair, I would defer to the Committee. And the way that it's structured, yes, it's much lengthier than the other two items in terms of actionable items. I think the general thought though was that building upon and educational section would maybe provide some of the feedback and input that you might get from the Committee or Board members that might be substantive and maybe reduce the time of the other items in the remainder of the Committee agenda. But I would defer to the will of the Committee.

CHAIRPERSON FECKNER: All right. Well, I certainly understand what you're saying and I think that makes total sense. My only concern is that agenda item on our timed agenda is an hour and a half. So I'm trying to give people a reasonable time to be able to get some lunch.

So perhaps we'll just take a -- we'll go on with the agenda until we get to 6. Then maybe we'll maybe take just a short break, and people can go get their lunch, and bring it back into the meeting, and they can have their lunch that way. Otherwise, we wouldn't be having lunch until 1:30 or so. And I know that may not be good for some folks.

What's the Committee think, any comments?

COMMITTEE MEMBER TAYLOR: That's fine.

COMMITTEE MEMBER WESTLY: Sounds good to me.

COMMITTEE MEMBER MIDDLETON: I agree.

CHAIRPERSON FECKNER: All right. Very good. Thank you,

Then we're going to move on to Agenda Item 4, the approval of the February 17th Committee meeting minutes. What's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

COMMITTEE MEMBER BROWN: Move approval.

COMMITTEE MEMBER TAYLOR: Second.

COMMITTEE MEMBER BROWN: Second.

(Laughter.)

CHAIRPERSON FECKNER: Moved by Ms. Brown, seconded by Ms. Taylor. We'll flip the switch there.

Any discussion on the motion?

Seeing none.

Ms. Hopper, please.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Margaret Brown, seconded by Theresa Taylor, all ayes, for Agenda Item 4a the approval of the February 17, 2021 Performance, Compensation and Talent Management Committee meeting minutes.

CHAIRPERSON FECKNER: Thank you.

That brings us to Item 5, the information consent items. Having no requests to moving anything, we'll move on to Agenda Item 6. But before we begin with that, Ms. Tucker, let's take a 15-minute break, allow people to go get a beverage, or some snack or something, or some lunch, and we'll meet back here at 12 o'clock.

(Off record: 11:46 a.m.)

(Thereupon a recess was taken.)

(On record: 12:02 p.m.)

CHAIRPERSON FECKNER: Everyone is back and settled in, so I'm going to turn it over to Ms. Tucker.

CHIEF OPERATING OFFICER HOFFNER: Michelle, we can't hear you. You might be double muted.

CHAIRPERSON FECKNER: We can't hear you.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Hoffner.

CHAIRPERSON FECKNER: Ah, there we go.

HUMAN RESOURCES DIVISION CHIEF TUCKER: I did have the dreaded double mute.

(Laughter.)

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you so much.

(Thereupon a slide presentation.)

HUMAN RESOURCES DIVISION CHIEF TUCKER: So thank you, Mr. Chair, and good afternoon members of the Committee. This is Michelle Tucker CalPERS team member.

The Board's primary executive and investment compensation consultant, Global Governance Advisory, is here with us today to present an educational session on compensation best practices. This training will count towards required Board education hours and sets a foundation to support Board members in their duties related to setting compensation for positions covered by

Government code section 20098 and the Board's Compensation Policy for executive and investment management positions.

With us today to make the presentation are Brad Kelly and Peter Landers who I just saw them promoted and their faces pop up. Brad and Peter are both partners at Global Governance Advisors. So I can now turn it over to GGA for their presentation.

MR. KELLY: Excellent. Thank you very much.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Brad, I see you. Okay.

MR. KELLY: Excellent. Now, we're just going to share our screen here. Get this started.

Everyone can see that?

Excellent and thank you very much. And it's great to finally be working with you all. And to start off, we'd like to thank all of you for your time and effort in meeting with us, and having some really in-depth and insightful conversations with all of you. We really appreciate that.

We thought it would be important for us to start out with a bit of education. We are very strong supporters of education and we wanted to make sure that -- that we're starting off on the right foot, in terms of, you know, what are the best practices out there, where would we like to work with you, and bring you along, and also, how can we address some of the findings from our one-on-one conversations.

So to walk you through this today is myself, Brad Kelly - I'm a partner with Global Governance Advisors - and also my partner Peter Landers. And so today what we'd like to do -- and this is going to be a very high level session. This is the first, hopefully the first of many. But what we'd like to do is first start off with performance review best practices as well as best practices in compensation benchmarking; how you can use and utilize relative value-add benchmarks; and pension trends, in terms of what we're seeing globally; and also how you can -- how you can adopt a proactive communication strategy to mitigate some of the -- some of the headline risk that pensions all over the world are currently faced with.

So that being said, we'd like to start off with performance review best practices. One of the first things we were asked to do is to look at the incentive process that you have in place and quickly have some comments on it. When you look at incentive plans, you know, we've been doing this for decades. I can't tell you how many -- how many I do. But there's one key underlying element that holds true to all incentive plans and that's really about working at that self-esteem level. Everyone in their employment wants to be recognized for the contributions that they're making to an organization.

And more importantly, your high performers need to be recognized for the performance that they're contributing to your organization. If they're not getting that recognition, if they're not getting recognized for the contributions that they're making in your organization, that's when you start dealing with attrition.

When you talk about the psychological element, this is something that I talk about all over North America in terms of the psychology of incentives, it's that the --

CHIEF OPERATING OFFICER HOFFNER: Mr. Chair.

MR. KELLY: -- (inaudible) that is key. And one of the key things that --

CHIEF OPERATING OFFICER HOFFNER: Brad. Brad, could I interrupt really quick?

MR. KELLY: Yes.

CHIEF OPERATING OFFICER HOFFNER: Your PowerPoint is not showing, so why don't we just have the internal team -- just let us know what page you're on and we can have them post it. I don't see anything showing before the Board or the Committee. So I just want to make sure they're -- there we go.

MR. KELLY: Okay.

CHAIRPERSON FECKNER: Christina is going to share it. So if you could just let her know which page.

MR. KELLY: Okay. Can we get on page four, please?

CHIEF OPERATING OFFICER HOFFNER: Thank you.

MR. KELLY: Excellent. Now, this is going to get awkward, because we have animations in here. Can we try sharing again? Because I -- it showed me that I was sharing.

Now, can everyone see that?

CHAIRPERSON FECKNER: I think you're getting -- it's starting to come in now.

MR. KELLY: Perfect.

CHAIRPERSON FECKNER: All right. There you go.

MR. KELLY: Excellent. Excellent. My apologies for that. It -- on my end, it did show that I was sharing, so not sure what happened there.

So in terms of the overall recognition, it's that esteem level. One of the key things that we noticed is that when we'd spoke to most of you about the performance management plan within your organization, a lot of people were referring to it as a bonus. And there's a significant difference between a bonus and an incentive. And that's one of the key things that we're going to ask your organization to do is to try to refrain from using the word "bonus", because bonus at times can have an underlying right associated with it and an incentive is something different. Incentive is completely attributed towards the performance that you've achieved, the measurable goals that you've worked towards, and that's what we're going to try and get you to focus on.

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MR. KELLY: In terms of why performance management plans fail, and there's a lot of this out there in the space right now with regard to differing opinions about incentive plans, one key thing that we see is that all plans start with great intentions, great aspirations, but often they fail because of poor design. They just -- they're not designed in a way that actually meets the needs of the organization or a way that enhances the overall buy-in, enhances the overall accountability within the organization itself.

Also, we see poor execution. So you have, you know, great design, but, you know, let's be honest, people's day jobs get busy. People get bogged down with things and sometimes key elements within the plan tend to get overlooked or overstepped, because they just feel that, you know, there are other more important things to do. And if you're not adhering to a logical process, something that is something that your employees can trust and anticipate, then it starts to fall apart. And that's where the execution really starts to play a role in the demise of the plan.

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MR. KELLY: When you look at a positive incentive plan -- and when we say incentive plan, it is truly must be at risk. It's at-risk pay, because by putting in a plan that is truly at risk, now it's you're mitigating -- you're mitigating your own risk, because you're not paying out incentives for performance and contributions that you're not benefiting from.

And so when you look at an effective plan, first and foremost, it has to be clear. It has to be clear on the expectations and the process. And this is one thing that we heard time and time again with the trustees is that the process is something that people were just -- they couldn't -- they weren't clear on the process, and that has caused problems in the past.

It promotes buy-in and it promotes buy-in from all the people who are participating in the plan, making sure that they have an opportunity to interact in shaping it in terms of negotiating it, and establishing what those objectives and targets are. And once they do that, the accountability is enhanced tenfold.

It's based on influence. So when you look at the line of sight between a participant within your organization and what they're expected to achieve, if there is a blurred line or if there isn't a real strong connectivity between them -- the participant and the expectation, then the influence tends to be negated. And what ends up happening is the people who are participating tend to back away. They're not as committed to it. They don't -- they don't trust it as much, because they feel that they really don't have any influence or impact on what that expectation is.

It's assessed on attainability. And this is another thing that we recognize is that when you look attainability, there's a way to calibrate this. And we're going to get into this later on in the session, but it has to do with an objective fair measure around what is realistic and what is not. And everyone comes in and I could -- we -- Peter and I could share many, many examples of this where we come in and work with an organization. I have one organization, a new CEO came in, very ambitious, decided to change all of the targets, because he was different and he wanted to impress the Board.

What ended up happening was that attainability factor was way out of whack and they ended up -- they ended up suffering from a very high level of attrition, because people recognized that what was being put in front of them was absolutely impossible and had never been tested before. And when we came in and were asked to actually assess attainability and recalibrate those targets, the attrition levels ended up -- ended up leveling off, but it -- there has to be some sort of objective measure around what is fair and what is not.

It has to rely on strong communication. And that's not just communication at the beginning and then the end of the year, which a lot of plans really focus on is the beginning when you start to shape the performance plan and what those objectives and targets will be, and at the end in terms of what you achieve, there's no communication in between. And that's where a lot of plans fall short, because there's a lot that happens within that 12-month annual fiscal cycle. And there needs to be some check-ins throughout, otherwise, you could be caught completely off guard.

For example, no one could have predicted a global pandemic before 2020. No one could have. No one could have predicted that. And so you need to have a way to check in to make sure that you're testing the measures, you're testing the model, you're testing the expectations, so that you have an opportunity to readjust at any time, if things have slightly changed.

They have to simple. Any of you who have gone through proxy circulars of large investment or large banking institutions will look at incredibly complex plans. And although we do work with a lot of these institutions, we advocate simplicity, simplicity, simplicity, because that is the way you're going to increase buy-in, and that's how your going to increase accountability throughout that annual cycle.

It has to be renewable, meaning that it's not something that gets reinvented on annual basis. It's something that just gets tweaked, updated, enhanced, but is not completely reinvented on an annual basis.

And finally, they're affordable in terms of having done a stress test to know that you will be able to cover whatever incentives are allowed or owed to your participants. If not, then you could be in a world of trouble or if you start looking at, you know, whether or not you can or cannot afford this, what ends up happening is a lot of your employees will update their CVs, go for longer lunches, and suddenly be working for other organizations. And so you want to make sure that you are able to address that affordability factor.

From our conversations directly with all of you - again, we appreciate your time - we can say that your plan is relatively simple. It is a renewable plan. It's something that doesn't have to be reinvented. It can just be updated and tweaked on a regular basis. And it is relatively affordable, in terms of what those overall incentive levels are.

Questions that we had was around clarity, as I mentioned before. The buy-in, because oftentimes people aren't really engaged throughout the cycle, buy-in could definitely be a question. Influence, oftentimes -- and we'll get into influence with regard to some of these elements in a bit.

Attainability. It's our understanding that some of these targets have not been really objectively tested. And then also strong communication. We -- some things that we heard was that from time and time -- time from time, not just the participant, but the trustees were unclear in terms of, you know, what were the measures, what did the measures really mean, what -- and what was happening between the beginning of the year and the end of the year? There was little communication in between or if there was communication, not everyone was being informed.

These are relatively easy things to address and we have to stress this. Those top-line issues are things that definitely can be improved and it's definitely, we think that, things that we can work with you to enhance as we move forward.

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MR. KELLY: In terms of establishing objectives best practices to establish what are called smart objectives, we advocate you go one step further. And this is to look at the ethics around that plan and the correlation of the objectives to what you're expecting all of the participants to achieve and to do. And are they risk weighted? Looking at, you know, what are some of the indirect risks associated with the objectives and the targets that you put out there.

You look at the economic downturn in 2008, 2009, most incentive plans had not been properly risk assessed, and so those correlations between some of those risk factors were not actually addressed. And what ended up happening was they precipitated throughout the economy and we had a big problem.

So this is -- these are the things that we advocate in terms of best practices, not just specific, measurable, attainable, relevant and time-bound objectives, but also the addition of ethical and risk-weighted elements in that -- the objectives as well.

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MR. KELLY: When you look at an overall balance scored card in terms of establishing a tool where participant -- participants can participate or to manage their overall incentive, we advocate that a very simple scorecard be established for every participant. And it's strictly just a one-page document that has all of the performance targets in it with the measures in terms of what are the targets associated with that, what is the weighting in terms of what did the -- it was the weighting placed on that, which is the emphasis within the overall hundred percent annual incentive. What importance are you placing on each of these objectives? And then ultimately, what are the dollar amounts associated with each of the objectives? Because that is where the incentive lies.

That's where people say if I achieve X at this level, I will receive Y. There's a direct line and a direct correlation between this. And you want to maintain that incentive strength, that -- the strength of the carrot as much as possible.

Most plans will have what we call a takeaway plan, which is a 0 to 100 percent scale. So as much of an objective you can achieve, that's how much of that target you're going to achieve. So it's a zero to a hundred percent. But we advo -- when we look at these plans, we say, well, there's a certain level of performance that you would still end up paying an incentive for, but doesn't necessarily help your organization, in terms of its overall health and sustainability. And this is where we -- we'd say that you really should broaden out the scope of the plan.

And so a best practice that we advocate is establishing what is that bare minimum performance that you expect your participants to achieve on each of those objectives to gain any part of their incentive. So, you know, what is it we need as a minimum performance to stay sustainable? And then it's really between the threshold and target when you start paying out any incentive within any of your defined objectives.

Likewise, how do you not stop your high performers for slowing down once they get close to that target? How do you incentivize these individuals to keep going to not take their foot off the gas, so that they can keep that momentum and keep achieving as much as they can throughout the year? And that's where the inclusion of a superior target or superior performance level really helps to drive performance, because once you have that element out there, what we know is that that becomes the target. That's a real number. That's a real promise. And so therefore, that is what people are trying to achieve, because they know that if they can achieve that level of performance, they're going to be rewarded and recognized for it.

From a calibration standpoint, we often say threshold performance, which is that bare minimum standard that you need to be sustainable, that should be relatively an 80 percent of the time an 80 percent probability. So you should achieve threshold performance about 80 percent of the time at a given performance level.

Targets, likewise, should be only achieved 60 percent of the time. And that means that 40 percent of that time, you're not hitting that target level. And then going beyond that target, between target and superior, you should be going beyond that level into that superior performance up to that maximum defined level, roughly 20 percent of the time.

Type A people really have a problem with this. Type A people say it's all or nothing, a hundred percent or nothing. And we say, no, the best way to do this, the best way to have a really healthy plan that allows you to continue striving and continue to perform beyond those target levels on an annual basis, is having something that has that 80, 60, 20 probability associated with it.

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MR. KELLY: When you look at it from a -- you know, from a general rule of thumb, that 80 percent of the time, you should be achieving that relatively about eight out of every ten years within your previous per -- previous year's performance; target performance, six out of ten years; and maximum performance only two out of ten years.

If you have an organization where that maximum level is being hit 90 percent of the time, nine out ten years, eight out of the ten years, now all of a sudden that superior performance becomes a given and that becomes an expectation. That's not a target and that's not really incentivizing people to do, what we would call, a superior performance or the achievement of superior performance on an annual basis.

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MR. KELLY: When you look at the general process, this is kind of the best practice chart that we often put it up when we're talking about performance management planning and the establishment of a strong plan, it always starts on that left-hand side with the strategic business objectives. So that's during the design phase. There's the design phase, stress testing phase, an evaluation phase, and a payout phase.

And you always start with that strategy. Your strategy should always be that cornerstone that helps to define what it is you're expecting your employees to do, to achieve, to accomplish on that annual basis. And so you start with a strong strategic plan in place. From there, you're going to define your short-term and long-term targets to make sure that you're aligned with achieving that strategic plan. Then you're going to design your plan in terms of what are the best elements to have in your plan to help achieve those targets and to incentivize your people to make sure you're utilizing the vehicles that you have at your discretion to the best of their ability.

Then you're going to assess risk. What is the risk within this model? Where are the risks of the objectives that we put in place? What are the risk -- the risk profile, the targets we put in place, the payout -- what we would call a payout curve? Is it incentivizing more and more risk? Is it a steady state, linear type risk profile, or is it something that slightly changes that could incentivize people to take a bit more risk, if they're closer to a specific threshold level?

Finally, once all of that work is done after the stress testing, the Board will approve that ultimate design. And then you move into evaluation phase, where you're going into your regular meetings, you're going to be evaluating performance on a regular basis. And ultimately, that's the Board that's overseeing this or a government agency -- it's government oversight as well.

And then finally at the end of that cycle, at the -- after the payout, you're going to look back and say how do we improve this cycle? How do we tweak it to best serve our needs and to make it even more impactful to our organization going forward?

If you can do this on an annual basis and have a regular cycle and you can engage the participants throughout this cycle, we can guarantee that will -- it will enhance that accountability and buy-in. If people buy into the plan, if they feel that they're part of this process and solution, then at the end of each year, they have no one to point to or no one to blame if targets and performance is not achieved. And this is a really strong element within this cycle.

Some organizations feel that objectives and targets need to be achieved or established within a box, and then they need to be communicated to participants and then those expectations are either achieved, or met, or not met at the end of the year. That does not enhance that buy-in and accountability at the end, because there's always that scapegoat at the end where people can say, well, I was never engaged in this. I was never asked and therefore, if I was asked at the beginning of the year, I would have told you that these things could not have been achieved because of X, Y, or Z.

You never want to be in that situation. You want to have a real fluid plan where people have an opportunity to be engaged, and that actually further commits their overall accountability into the annual cycle as well.

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MR. KELLY: In terms of communication, again, this is something that Board members had expressed some concern around in terms of not knowing what the communication plan was or how it was being addressed on an annual basis. And communication is key throughout the year. And so you want to make sure that you have a strong plan that can -- that provides communication opportunities throughout the year, not just at the beginning and the end of each fiscal year as I mentioned earlier.

And these are opportunities to share expectations and concerns going forward. It helps to reinforce their strategic plan. If there's anything in the -- in the objectives or anything on anyone's score card that is not aligned with the strategic plan, there's a misalignment there, and therefore there's a problem with the overall communication in the plan and alignment of the plan.

Understanding that this strength -- it strengthens buy-in as well, as you have these communication opportunities to strategize on how you're going to achieve these objectives and what these targets could or should be.

And finally, it's sets a stage for ben -- for a beneficial process, where you're -- and you have your objectives and your goal setting, you have a mid-year assessment, and a final end-of-year -- end-of-year results. That's the bare minimum in terms of your engagement. So there should be, at bare minimum, three key check points on an annual basis that you're adhering to and a consistent follow-through, so that people trust the cycle, they trust the process, and they can anticipate the process, as you continue on with your program. That is key as well.

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MR. KELLY: So in materials of the communication cycle, as I mentioned earlier, best plan is to have your SMARTER objectives established at the beginning of the year. That's your initial meeting where you're going to be sitting down with Marcie and saying, okay, because Marcie is the key executive that your responsible for. You're going to actually clarify expectations on both sides, in terms of what needs to be achieved for us to a -- for us to move forward and to realize our strategy, what targets are we expecting, and how will you be rewarded if you can achieve these targets.

There's an opportunity for input. So an opportunity for any of the plan participants, Marcie with your Board with your Committee, for her to actually have input into this and to say here is where I think we --

what we can achieve and how we can achieve it. And there's a chance for you to negotiate and barter. And again keeping that fair, keeping that objective, where you -- wherever you can, so that you overall can look at that attainability level, which is really key.

Negotiation that strengthens accountability. As I mentioned before, that initial meeting is an opportunity for that negotiation to take place and for that participant to truly be accountable for that performance that's expected to be achieved throughout that year. And it's an identification of potential challenges. So we have some clients who, as I mentioned before, would establish those objectives, you know, amongst themselves at the Board level and the potential challenges are never really communicated.

And so therefore at the end of the year, challenges tend to be surface. And that doesn't really help achieve those objectives or to incentivize someone to achieve those objectives. And so by having an opportunity to have a conversation up front, it allows you to truly delve into what are some of the obstacles that could be in play, that could actually hinder our organization's ability to achieve the targets that we would like or hope to achieve.

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MR. KELLY: Then a really important one is that mid-year meeting. And this is one where people often overlook the process and say, well, we're busy and, oh, we're moving well. Everything is good. It's okay. But this check-in is vital. It's vital because this gives you an opportunity to understand, you know, what is the current performance of this participant, and to have a conversation around that, to talk about some of the challenges that might have occurred.

So, for instance, the emergence of COVID last year or an economic downturn that suddenly happened that precipitated a major problem in multi -- in multiple asset classes. These are things that need to be discussed.

And it also -- if it's out of the overall control of an individual, this is an opportunity for you to have a discussion around objectives. And we say only if absolutely necessary. If something has occurred within the first six months of that annual cycle, that has completely caught everyone off guard, now is an opportunity for you to recalibrate things.

So a lot of funds last year, at that mid-year point, looked at their COVID situation and said we really need to address this, because it has a material impact on our fund. It has a huge impact on the way in which we can get our work done, and the overall motivation, and retention of key staff. And so how do we kind of right the ship to make sure we're dressing these concerns, so that we can still stay on track for the end of the year.

So this would have been an opportunity for a lot of organizations to make some minor adjustments, to add in some key objectives as well, to recognize the fact that things have changed.

Also, it provides clarity on how success can be achieved. We often say you have to be proactive in these engagements. And so just the same way that you will have expectations of Marcie coming and interacting with your board, Marcie herself should have the same expectations for her direct reports, and so on and so forth as you cascade down your organization.

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MR. KELLY: When you look at these engagement opportunities, it has to be proactive. Passive plans that don't expect participants to come in and actively participate in a plan really is where the execution falls short. And so we are strong advocates for that proactive participation where all participants in an incentive plan need to attend every meeting with ideas on their own personal objectives, what those targets and weightings can be, what is fair and reasonable, what is it that they feel they can achieve on that attainability side.

And they need to come with real solutions to real problems. This is not an opportunity for people to complain, but it's really about coming in and addressing some of the challenges that are in place and having solutions ready to communicate, so that they're not just coming in and receiving it in data dump or performance dump from the evaluator, but they're coming in knowing where they're -- how they're performing at that point, where the challenges are, and having solutions that they can start to discuss and negotiate, so that they are really solutions oriented and also focusing on teams.

There's a lot of work on teams and the importance of teams and the strength of teams. And we would say that the communication in all of these meetings, you know, Marcie down through your whole organization, should be focused on what the organization, what the -- each team can achieve, because that's where you're going to have a significant impact on the motivation of each participant in an incentive plan.

And we say everyone walking in should not be walking in to a meeting in a black box expecting to hear what their performance is and to achieve -- or to receive their overall performance metrics. They need to walk -- the plan needs to be so simple and so clear that when they walk in, they know where they are at each level, because there's proper definitions around each of the objectives on how things are being measured, what each performance level is within those measurement scales, so that everyone has clarity, so that the participant comes in and says I know where I'm at. Let's talk about solutions and how we can continue improving and getting better and better each year.

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MR. KELLY: Finally, at the end of the year -- again, this is not a data dump. This is not where they're just going to receive the end results of their performance and how much their incentive is going to be. Again, it's about understanding the overall performance, what were the challenges, what are the solutions to those challenges going forward. It's really about talking about the improvement and the learnings that you've gained from the past 12 months, and how can you apply that -- that knowledge and experience towards the next fiscal year and do even better.

It's an opportunity to strategize. Again, this is -- your performance is in the past. This is what happened, yes. But this is how we're going to strategize going forward. And this is how we're going to achieve greater success in the coming year.

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MR. KELLY: And with this, I'm going to pass it over to Peter and he's going to talk about compensation benchmarking best practices.

MR. LANDERS: Thanks, Brad. And Brad, if I can just ask you to walk through the slides, that would be great.

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MR. LANDERS: I'm going to start off by talking around -- about compensation best practices. And it all starts with the foundation. The foundation of any compensation review, setting up your program is really making sure that everyone is clear on the compensation philosophy, the philosophy that your board and your organization has on how it pays its people and why it pays its people what they do.

And the key characteristics of this philosophy, and there are a few that come to mind. The first one is purpose and objectives. What are those key principles of your program? Is it pay-for-performance alignment? Is it tying more to the longer term versus the shorter run. What impact does, you know, salary have on your way of thinking, that type of thing.

All of these things go into setting what's the purpose and the objectives of setting the program and the compensation structure that you have in place.

The next thing you want to do in that philosophy us outline all of the different elements of compensation that are offered. So that's talking about things like obviously a base salary, an annual or a shorter term incentive, longer term incentives, which are increasingly becoming more and more a part of pension funds in the way that they pay their investment professionals add their senior executives.

Lots of other things, like what role does the retirement or the pension plan and pension eligibility have to play? What about any other perquisites or benefits that might come from State employment and things like that, that the State might offer through health care benefits and things like that. So you want to outline each of those elements of pay, and why they are important, and what they are -- what's the intent of using each of those elements of pay within the overall pay program.

The next piece is compensation mix. And what we mean by that is how much of a weighting on pay is based on base salary? How much weighting is placed on the annual incentive? How much is placed on longer term incentives? How much is placed on the pension, and the benefits, and the perquisites, and things like that?

And what you'll find is increasingly as you make your way up to more senior levels of the organization, it's really that incentive pay, that short and that longer term incentive pay that will make up the large portion or a very high portion of the overall pay package. And those other ancillary benefits, while still making up a meaningful amount, make up less and less a portion of someone's overall pay mix, when you compare them to someone at a more junior level of the organization. And that's -- the compensation mix is where we're starting to see the most change.

If you look at in the U.S. pension funds, if we look at say Canadian and international pension funds, you know, that's where a mix that historically was very much focused on base salary only and maybe a small annual incentive has now been broadened out, so that, yes, you're paying market-competitive salaries, but you're increasing that at-risk, that incentive pay, that portion that's put to annual incentives, increasingly that portion that's put towards longer term incentives that are measuring multi-year forward-looking performance. That's the biggest change that we're seeing if we look at the pay mix say 10, 15 years ago, to what we're seeing now is that greater emphasis and focus on the at-risk incentive pay.

You want to make sure that that philosophy as well defined peer group. And we talked a lot through a lot of the Board interviews with all you around peer group, and you want to establish not only necessarily the names of the organizations that are in that peer group, but what are some of the characteristics? What's their relative size compared to CalPERS? What is the complexity in terms of their operation? How much of their assets are managed in-house versus, you know, externally, those types of things.

You want to look at things like geography, size, complexity of the operations, all those different characteristics and making sure that that peer group hits those set of characteristics that you look at and say, yeah, that makes a good peer for our organization. Other ways to look at it too is where are we currently losing or recruiting talent from? That's another way. And what are the characteristics of those types of organizations? And you want to make sure that that peer group that you set is meeting as many of those characteristics and criteria as possible.

Once you've established that overall peer group, you want to look at your positioning relative to that peer group. Where do you want to be positioned? Do you want to be positioned at the midpoint of the peer group? Is there a rationale for being placed at the 75th percentile or at the 25th percentile? A lot of the times you look at your relative size compared to that peer group and say, yeah, you know what, it makes sense for us to be more or less at the median or, no, maybe we have to be a little bit on the higher end if we're a little bit larger on a relative size perspective. But this philosophy should clearly outline where you want to position overall pay within the peer group.

And then lastly, you want to make sure that you have a good overview of the governance and oversight of the program, different delegations of authority, what is the Board and the PCTM Committee have specific oversight off of and authority to approve, and what are you delegating to the CEO and to staff in order to -- to basically fulfill and make those compensation adjustments. You want to make sure that your philosophy has all of these key elements as part of it. And if there's any one of these where you're lacking some clarity, then you want to make sure that you get that clarity moving forward.

One thing we did know when we looked at, you know, the overall philosophy and strategy at CalPERS is currently you are benchmarking pay relative to total cash compensation, which means salary plus annual incentive. And one thing we would encourage you to think about and consider moving forward, as we look at potentially making any tweaks to this philosophy, is to start thinking of it more holistically and looking at it from what we call total direct compensation, which is your salary, your annual incentive, and then that long-term incentive.

And the reason we say that is you've now adopted a long-term incentive that makes up, especially again at the more senior levels, a larger and larger portion of the overall pay. And so you want to make sure that when you're referencing that overall positioning, that you're positioning yourselves competitively from that total direct perspective and you're including that long-term incentive. Because if you're just focusing on total cash, you could be leaving a large gap to the marketplace. So just something to consider moving forward.

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MR. LANDERS: We quickly also wanted to talk about when it comes to pay reviews and compensation governance best practices, how we at GGA typically approach, you know, our workings with boards and with different committees. And you'll see the direct arrows, which are, you know, reporting relationships essentially. So, yes, we report in to the PCTM. We have what we call a dotted line between the broader Board and with management, because one of our key differentiators to us and our peers is we like to have a collaborative approach. So we like to gain the views of not just the PCTM Committee members, but the broader Board on what's -- you know, what's working, what's not working with pay, what do they like to see, what are their concerns with the current compensation program.

We also, where warranted and where allowed, based on, you know, certain sunshine rules, like to gain the views of management and make sure we understand where management is coming from. And it goes back to what Brad was mentioning earlier about buy-in. If you're just getting, you know, one side's view on things and not hearing the full perspective, are you going to be able, at the end of the day, to build that level of buy-in and trust from both sides.

And so that's why we have those dotted relationships in the sense that we get the views of both the broader board and management. And the one thing we don't do is we don't engage to any other sort of ancillary services to management, things like actuarial consulting, things like, you know, advising on pay below the investment professional and executive level, providing investment advice. Another big one is search -- so executive search.

We see all of those as potential conflicts. And so we just wanted to differentiate that and make that clear for the Committee that we don't provide any of those ancillary services. We work for the Board, work for the

Committee, and get those collaborative views at the end of the day.

Next -- next slide there, Brad.

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MR. LANDERS: So what are the types of compensation that are typically reviewed as part of a pay practice review? Those top three are the key buckets. So I'm sure in the past when you've, you know, engaged other firms like a McLagan or something like that, they'll give you, you know, base salary, shorter term incentives. I would suggest that moving forward you should be looking at long-term incentives as well, because that is part of your overall pay package that you're now offering at CalPERS.

But those are typically the three most common elements that are, you know, looked at. Typically, you bring in an independent third party to help you with those types of things. But then you have these three other buckets, whether it's accumulated and realized, LTIP gains, retirement benefits and perquisites. These are things that oftentimes can be managed in-house and you can keep a track of, you know, how you're -- how you're doing in those areas.

Oftentimes retirement and health care benefits are typically mandated and you have a pretty defined formula, so there's not much you can do there, but you can, you know, work with staff to figure out what's -- you know, what's that cost or what's that benefit that that's giving to certain employees, the same thing with perquisites.

The one thing we do do, and we offer it as a service, is while management and staff, you know, can definitely do a concordance and say, yes, you know, based on these level of investment results, here's what the annual incentive payout should look like. In the future, here's what the long-term incentive payout should look like. What some organizations have asked us to do as the independent compensation advisor is actually provide a third-party audit of the incentive payouts and verify that again, based on the custodial results that are provided, that the calculated payouts and earnings that people will gain under these incentive programs that they align.

And it's just that additional sort of reality check, that additional assurance for the Committee that, you know, the independent third party has verified these payouts and can calculate it. So that is something that while we put it -- you know, it sometimes can overlap with what staff is doing, it is another area where we've seen some organizations look to bring us in is to verify those incentive payouts on an annual basis and those longer term incentives when those performance periods are over.

But all of these different areas should be reviewed on a -- on a regular basis, either by an independent third-party or at least having a check-in with staff. And a good rule of thumb, while we don't put this on the pages, no, you shouldn't go any more than two to three years without doing a dive and looking at the marketplace to see what are -- you know, what we're offering for salary is that competitive, what we're offering for short-term incentive or annual incentive, and we're offering for long-term incentive, is it competitive?

And so you should be looking every two to three years to be conducting such a review. And we understand, it has been a couple years since that review has been done, even -- potentially even longer than that, so we would encourage, as part of potentially the next year's workplan for the Committee to really think about doing a more deeper diver into each of these areas and making sure you're comfortable with the level of pay that you're offering to your senior executives, but also to your investment staff.

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MR. LANDERS: I can't stress enough the importance of using similar peers. I've talked about it at a high level before. You want to look at, you know, again organizations that are a similar size. So do they have a similar level of assets under management, do they have a similar number of members, do they have a certain, you know, a similar level of budget that they have on a regular basis. So different things like that in looking at it from its size. And typically, that size is ideally 0.5 or half to two times the size of your organization.

Sometimes, we'll, you know, stretch that a little bit and go to one-quarter to four times the size of your organization. But you don't want to go much more than that, because you want to try and at least have, you know, reasonably sized peers within your subset.

And again, knowing that CalPERS is, you know, one of the -- if not the largest fund in the United States, obviously getting those larger size peers is tricky. And that's where looking at other things like similar sectors, similar regions from a geographical perspective, that's where potentially looking and saying, you know what, we are one of the largest or if not the largest organization or peer group, so maybe we need to target at a little bit of the higher end of the range, given our relative size.

These are all things to consider when you're, you know, finalizing that philosophy on pay. Ultimately though, you want to be looking at positions that are similar in scope and that's where the size can really be helpful. And then similar in terms of responsibilities.

And one of the ways you can look at that is the degree to which you manage your assets and investments internally versus externally. Because, you know, man -- you know, measuring CalPERS against an organization that solely outsources all of their investment decisions is probably not the best comparison.

You know, also taking into account the fact that you're also managing the pension administration side, especially at the executive level, in addition to investments, that's another area where if you look at, you know, other peers, you might say yeah our scope is a little bit larger than that.

So ultimately, you want to be working towards that apples to apples comparison at the end of the day and make sure that you understand what your peers are doing, and that you, as a Committee and as a Board, are comfortable with not only the pay levels, but the structure of pay that you're offering.

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MR. LANDERS: In terms of enhancing organizational effectiveness, in terms of compensation benchmarking, ultimately those decisions that you're making to align to the mission, the vision, and the values of the organization. So again, your philosophy on pay is going to be driven at a foundational level by that mission, by those visions, by those values and the overall strategy of the organization.

And then you can tie that compensation design to that strategy making sure that if you're paying out these incentive awards and you're making any adjustments to the base salary levels, that that's aligning with the performance of the individual and the performance that's guiding you towards that strategic vision over the next few years.

And again, if you have a well thought out, you know, a program that has lots of buy-in from the staff, that's going to ultimately improve your attraction, your retention and your performance of your staff, because everyone is working towards those common objectives in their own little ways.

And really what you can do through, you know, a compensation benchmarking exercise, or what we'll call a compensation fairness opinion, is make sure that things are aligning appropriately and that your strategy you're articulating it, and your philosophy is tying into your performance management and your talent management, and making sure that you're meeting the needs of your staff, and meeting the needs of the members at a whole over a long-term basis.

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MR. LANDERS: Very quickly, after talking about compensation benchmarking, I'm going to just talk about the setting of relative value at benchmarks --

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MR. LANDERS: -- and the purpose of these benchmarks. Ultimately, these benchmarks help to define the broad investment opportunities set for Board and staff, so it allows you to again track how you're performing. And especially if you're, you know, tying your performance to, you know, say an S&P 500 or something like that, it allows you to track how you're performing against the broader capital markets on a regular basis.

It helps you to align the expected risk and return of your portfolio from an asset allocation perspective, with the execution of that policy. So what that means is you might not wanted to take on as much risk as the broader marketplace or as say a derivative strategy or something like that, and so you can now align those benchmarks accordingly and make the appropriate adjustments to make sure that that benchmark is aligning with the risk and return profile of your portfolio.

It allows you to ultimately measure staff's performance in executing on your policy. So you have certain objectives that you set out. It's the seven percent. We want to beat the benchmark index by X number of basis points. You know, it allows you to then measure and see how are we doing against that target that we set out. And ultimately, it also allows you to measure the effectiveness of your asset allocation policy with other alternative policies as well.

And I think it's important to realize that depending on which of these areas you pick, these may require a different benchmark selection. And, you know, we play a part in this sort of performance benchmarking exercise, but you would obviously also work with your outside investment consultant and they would definitely provide you with some guidance in terms of best practices, what they're seeing, in terms of, you know, the different clients that they work with and the different investment committees that they work with. But it's all -- it's ultimately a situation where both the investment consultant and your -- you know, your independent compensation consultant should be working together as part of any review of the performance benchmarks.

And Brad -- there we go.

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MR. LANDERS: If we can just -- you know, if you look at the different roles that we would play, the investment consultants will review and recommend benchmarks. And those benchmarks are very often used for both the investment policy purpose, but also when you're determining incentive compensation. They're also going to provide opinions on changes that are required to the benchmarks, and parameters, and how that affects the incentive compensation.

And typically, this has to do with, you know, your discussions around asset allocation policy. Maybe you want to take on more risk, maybe you want to take on less risk, maybe you've changed the overall weighting of say private equity or infrastructure within the portfolio and you've reduced global equities and fixed income. All of that will then tie into, you know, the benchmark that you potentially select, as well as what the performance expectations should be against that be benchmark.

In terms of us as compensation consultants, we're going to review those market practices look at how does your benchmark compare to other funds and what we're seeing in that marketplace. In terms of the value-add performance, how does that tie into the value-add performance expectations of other funds? It just allows you to understand the broader marketplace for that.

It allows us as well to analyze the impact of certain changes. Now we do this a lot for our clients, where, you know, if they say we want to change the benchmark to this or we want to change the expectation to this amount, to Brad's earlier point, we'll do that look-back analysis. We'll look at, on a forward-looking basis, under different performance scenarios, what would the payout have been for the last five years, if we had used this benchmark? How does that compare to what you actually paid out historically?

Looking forward, what would you plan to pay out under the current level of performance and what could you potentially pay out with this new revised benchmark? So we'll do that type of analysis as well to really quantify the impact from a incentive perspective, of changes to the overall benchmarks. And then lastly, I mentioned this earlier, oftentimes, as consultants, we will audit the incentive payouts in relation to performance on an annual basis. So we'll actually provide that independent third-party perspective and sign off. That is something that we also help with as well. So all of these different things that come into play.

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MR. LANDERS: In terms of some high level market best practices, and I believe that CalPERS, you know, does a really good job at, you know, following a lot of these. One is total fund benchmark. So you're utilizing a policy benchmark. So basically looking at, you know, the target weights of different assets classes times the actual benchmark performance to get to that total fund performance. So that's quite common, something you see in the marketplace.

Asset class benchmarks, although not specifically included in the incentive awards -- and we'll get into that as part of another agenda item, you know, we do know that you definitely are tracking asset class benchmarks and making sure that those benchmarks do reflect a reasonable and viable opportunity set, you know, compared to your risk and return profile, so that, you know, you're definitely looking at that.

Potentially using customized benchmarks where warranted. And that's usually where a benchmark just doesn't meet that risk and return profile, you know, 100 percent correctly. And so you need to make sure that you're customizing the results there to make sure that it's a more apples-to-apples comparison to the level of risk that you are willing to take on.

Again, this is something that your investment consultant can definitely work with you to figure out what that customized benchmark looks like, but it is something with we see used quite often in the marketplace.

And then lastly, making sure that you're tying in those investment expectations and those investment benchmarks with your incentive compensation is another very common policy. So you don't want to necessarily have one set of expectations for investment performance and another set of expectations that you're applying on the incentive compensation side. You want to make sure there's some alignment between the two. And so all of these different things you should be looking and making sure, you know, did we check the -- did we check the boxes in all of these areas? And if you've done that, you're moving in the right direction.

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MR. LANDERS: Ultimately, if you look at -- you know, looking at both internal and external reviews, and we have a little graphic that will show this, internally you can do -- look at historical look-back analysis. And that's what I talked about earlier. If we had performed at this certain level of performance historically and on a go-forward basis, what would we have paid out? What would that level of performance resulted in from an expectations perspective.

But then if you can mirror that in and blend that in with an external review, working with your investment consultants, working with even us as compensation consultants to say, what are our peers doing, what are the performance expectations that they're setting, and are we aligned with the external market and our peers?

And if you can do a good blend and look at a review and assess both of these areas and come up with benchmarks that do a good job of blending in the considerations of both, that is a best practice. You want to, you know, not be looking at these things in isolation as silos, but you want to be looking at them holistically, as part of any incentive benchmark review and saying, okay we understand this is what the market is saying, but what's the impact internally on us as an organization, and if there's an impact, are we comfortable with that level of impact?

And so that's really the critical thing. If you're doing one without looking at the other, you might lead to some unintended consequences. And that's again where knowing what your peers do is great, but making sure you understand the impacts internally on incentives moving forward and things like that, is an important piece to be aware of (inaudible) consequences --

(Voice interruption.)

MR. LANDERS: Don't know if I can mute someone, but someone is on unmute. There we go.

What we wanted to do here is just highlight some select U.S. funds that specifically talk about how they incorporate benchmarks into the setting of investment perform -- incentive performance.

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MR. LANDERS: And so if we look at Texas Teachers, they look at it and they measure it relative to appropriate predefined benchmarks in their asset allocation and benchmark tables. And they actually apply it right to the Board's Investment Policy statement. If we look at the State of Wisconsin's investment board, incentives only earned when portfolio and fund performance surpasses threshold hold, that are set by the trustee and they work, like I mentioned, with their industry consultants to figure out what those thresholds are.

And then lastly, the Virginia retirement systems talks about awarding incentives or bonuses to investment professionals under a pay plan that's based on the performance of the Investments, and they measure that based on benchmarks over three- and five-year periods.

So just some selected examples, you know, CalSTRS would have similar type of language in their, sort of, investment policies. But essentially, you want to make sure that you're tying in, you know, your incentive awards to those investment results in some form or fashion.

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MR. LANDERS: Now, very quickly, I'm going to walk you through just some high level pension fund trends. As Brad I think mentioned earlier, we could spend a whole hour and a half just on this alone, but we wanted to just highlight at a very level some of the key trends that we're seeing in the marketplace.

And I know one of them, it's not showing yet on the screen, relates to, you know, asking yourself what needs to change? Is there anything that needs to change? What can we improve upon ultimately? And the lastly, is there a better way to do things?

And, you know, you'll here Brad and I say this a lot throughout hopefully the many other conversations that we have, the kiss of death is saying this is the way we've always done things and we can't, you know, change anything.

You always want to be thinking about how can we improve? Is there a better way for us to do things? Is there a better way for us to communicate our expectations to the CEO and to the CIO and others. So always be asking yourself, how can we improve upon, what can we learn in terms of best practices and take back to our work on the CalPERS Board.

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MR. LANDERS: And we wanted to just, you know, ensure you and make you aware that full funding is still very much possible. There's a lot of funds out there that might be saying, you know, it's -- you know, we're at 60, 70 percent, and, you know, it's just -- I don't know how we're ever going to get there. Are we ever going to get there? And the great thing is when we look at, you know, some research done by organizations such as Mercer, you can see that, you know, funding ratios, especially in Canada and internationally, are at a hundred percent or higher. The median ratio, from a funding perspective, is 96 percent in this specific study.

So full funding is definitely possible, making those improvements to get closer so full funding status is possible. And so we just have to always remind ourselves to not let the politicians and the critics tell us that it's not possible. And we can tell you through many, many years working with funds in the United States, but also in Canada, and internationally, that, you know, 15, 20, 25 years ago, they were in similar situations. And it's not going to settle itself overnight, as you all know. But if you can continue to make those tweaks, continue to look at, you know, putting in place strong pay-for-performance plans, you know, trying to, you know, fill some of that gap from a market perspective to the private sector for a pay perspective, knowing that you'll never -- you know, you don't want to be paying the full private sector rates, but knowing that you can try and, you know, fill some of that gap possible, these are all strategies that have been used to historically and have led to, you know, some organizations getting to full-funded status, if not even higher.

If I reflect back on say HOOPP, the Healthcare of Ontario Pension Plan, I think they are 118 percent funded, and they just keep, you know, putting their -- you know, their foot to the pedal, to make sure that they're continuing to generate those returns for their members.

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MR. LANDERS: So why -- you know, why consider alternative models? We like to sum it down into, you know, five buckets of different ways in which you can reduce your pension deficits. And I think the most common ones that, you know, have been the most often thought about and, you know have always been used is we're going to increase contribution rates. And, you know, that's not a popular thing. It's, you know, sometimes necessary, of course, and you've had to do that in California to do that, but it's not a popular way in which to reduce that pension definite.

If we look at other ways, another unpopular thing is decreasing benefits. And again, these are definitely ways to do it, but they're not, you know, the most popular. And they're going to obviously impact members and employers more so than ever.

And so what we say is there are three other buckets that can definitely play a role in reducing the overall pension deficit. And one is improved governance. And what we say by governance is making sure you're following proper policies, procedures, making sure that you're asking the right questions around not only compensation, but other governance matters. And I'm sure you were through your Governance Committee to try and always be improving your overall fund governance. But that's one area that doesn't get enough consideration.

The other one is obviously looking to increase your investment returns. And obviously, if you can increase those investment returns, especially above that seven percent actuarial rate of return, you're again going to be eating away at that pension deficit.

And then lastly, decreasing operating costs. And I know you went through that exercise as part of the Finance Committee earlier.

But all of these three areas, we find historically don't always get enough attention pension funds. And we talk about it from larger pension funds, but also smaller and mid-sized pension funds. These are areas that can play an important role in helping to reduce that pension deficit. And some of the recent studies out there have shown that, you know, improved governance can save pension funds between one and two percent, a hundred to two hundred basis points on an annual basis.

So think of what one or two percent extra can do on a portfolio in investments the size of a CalPERS. If we look at increased investment returns, a lot of the work being done on internal investment management says that you can generate approximately 24 to 30 additional basis points of value-add returns above benchmark as you increase the level of internal investment management.

Again, all of this adds up. That's now two and a quarter percent and things like that. So all of these things can help in, you know, working together to reduce that pension deficit over time. And that's what some of the transform funds have done over the years.

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MR. LANDERS: In terms of the Board's role, strong governance oversight is key, having strong financial oversight, things identified include enhanced board composition and skills, regular board evaluations to make sure you're performing at an optimal level, making sure there's clarity on the board in management's roles, and then lastly making sure that there's a high performance culture in place with competitive compensation being offered.

So all of these key areas are areas that have been identified that can help and strengthen your overall governance, helping towards getting those increased investment returns, and decreasing those operating costs. And like I mentioned, studies have shown, you know, one to two percent, or a hundred to two hundred basis points can be saved through good governance.

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MR. LANDERS: And if we look lastly at what some of the leading funds of today are doing, they're recruiting top investment professionals and highly skilled board members. They're building their internal asset management teams to replace some of the more costly external service providers. They're offering higher compensation to attract, motivate, and retain top talent.

And while they definitely are offering higher compensation, so increasing your overall talent costs, these costs are typically substantially lower than the external investment management fees that they're offering. So they're offsetting this cost more than enough to justify that as well.

And then oftentimes, they have teams that are performing better as investors, because you're working towards that aligned mission, working towards that vision of the fund, and they're often incentivized to those strong, longer term incentive plans that really reward them for longer term performance, and then also, you know, have some global offices at some of the funds as well in other countries and jurisdictions.

Ultimately, all of these things are helping them in determining better investment decisions, being able to cut down on those external money management costs, and over time through -- you know, through making sure that they have the solid funding model, making sure that they have increased internal capabilities, and that they've been able to reduce or eliminate those deficits, again, not overnight, but over a longer time period.

And that's what we're really suggesting here is continuing to take those steps to build out skill sets and capabilities, and ultimately over the long run being able to increase that funding ratio over time.

MR. KELLY: Excellent. Now, Henry, I believe you have a question.

Oh, you're on -- you're on mute.

Okay. Well, we'll --

PRESIDENT JONES: Yeah, there were some other -- there were some others before me, so Rob will control it.

CHAIRPERSON FECKNER: Right. All right. Thank you, Henry.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you. So I had a couple questions. One is, as we go forward, I think -- and I cannot remember the slide. It's way back. But I'm concerned about looking at -- and I'm hoping we're not turning that direction, looking at incentivizing per asset class, because we just turned around our fund to look at a total fund value. So I know -- and I know this is -- this is just a presentation, but I just am a little concerned about that, because we had some problems with that before.

Is there -- also, one question I thought about was as we consider the incentive programs based on benchmarks, of our investments, are we -- and you mentioned long-term risk and you mentioned other risks, but I -- one of the things that I remember when I first started is that we didn't have buy-in on an ESG strategy from Investment staff until it became part of their incentive plan.

So it's important, because this -- that also impacts the long-term sustainability of the fund. If we're looking at it -- I mean, you know, what's good for the goose is good for the gander. And if we're doing say for pay at corporations and requiring meeting global standards for the Paris Accords, then we need to be making sure that we're doing that in our investments as well. So that should be part of our benchmarking as well.

And then finally, if we find out that -- and I just do want to some commentary around this. If we find out that say we have an investment strategy that failed miserably, but we didn't see it until the person left, can we include a clawback strategy?

So those are my three questions for comments or comments and questions.

MR. LANDERS: Thanks, Theresa. Those are great questions. We'll talk about this a little bit more as part of another agenda item on the incentive metric review. This is something on the asset class performance side that, you know, is something that we saw that definitely was unique to CalPERS, and, you know, most -- most pension funds out there will have -- within the annual incentive plan, not on the longer term. The longer term is always total fund focused. But on the annual incentive plan, it will typically have a pretty sizable weighting on total fund performance. But they also, for the asset class specific folks -- so not for your CEO, your CIO, your deputy CIO, those types of roles, but for your head of private equity and things like that, oftentimes you will see a weighting placed on asset class performance. So that is something that is pretty market standard.

And the idea behind that is -- we can talk about this maybe as part of the other agenda item, but it's line a sight and making sure that people are being incented yes, on the longer term total fund results but also having line of sight over what those individuals have control over and being able to reward those higher performers in certain asset classes, maybe potentially over asset classes that aren't performing as well.

So I'll maybe stop there and then we can talk about it more as part of the other agenda item.

COMMITTEE MEMBER TAYLOR: I just want to flag it as we ended up kind of siloed is the problem and with some pet projects et cetera that weren't very helpful for returns.

MR. LANDERS: And I agree, that's definitely something that, you know, we'll need to consider when we look at, you know, what that optimal weighting structure looks like. But maybe we'll talk about that as part of -- as part of that agenda item. But on the ESG front, you had mentioned that as well. I think that is something that increasingly is coming up more and more with the organizations we work with. And, you know, that is something to potentially look at and consider how that gets incorporated into the setting of certain objectives, and maybe it's on the individual objective side. But that is something that we're increasingly seeing more and more organizations look at incorporating into their incentive programs is how are we incorporating ESG into our incentive plans.

COMMITTEE MEMBER TAYLOR: Well, and, Peter, remember, CaPERS actually is a leader in that. We are the original signers of Climate Action 100+ and Net-Zero Alliance. You know, there's a ton of work that we do in it. And it took moving earth basically to finally get it included in the incentive program, so that staff felt incentivized to continue to move this process forward.

So I think it's an important part of any incentive program moving forward, especially -- I mean, if we're making demands of corporations that -- you know, of -- in the assets that we own, right, of Climate Action 100+ meeting the Paris Climate Accords, or whatever it is, whether that's worker safety or whatever, then -- or say-on-pay, diversity and inclusion, then I think that that, somehow or another, also has to be measured for our incentive awards for us. Like I said, what's good for the goose is good for the gander.

MR. KELLY: And then what we're seeing is more and more public and private funds making announcements and commitments to carbon neutral portfolios, broader commitments to ESG. And they too realize that the only way they can get there is by incentivizing their staff to make it happen. And there's -- this is the topic that is really quite fascinating. Peter and I run the NCPERS accredited fiduciary program. And on the day that we discuss ESG, there's a vast array of opinions. But I'm sure your board went through it yourselves in terms of, you know, how do you get there, and, you know, what are the pros and cons on an investment port -- in an investment portfolio.

For the longest time, people thought that it had a negative investment impact or a negative return impact, you know, working towards their carbon neutral portfolio. Research is still coming out and it's still a hot topic. But what you're seeing from a -- from a social perspective is commitments are being publicly made and so therefore if you're going to commit to it, you have to find a way to actually make it happen. And to the point, incentivization is a great way to make it real for your employees.

COMMITTEE MEMBER TAYLOR: Oops. As to the clawback, anybody have an answer on that?

MR. KELLY: Now, clawbacks are very, very difficult, because the people have, you know, left. Usually, it's a retroactive thing. I actually wrote a piece years ago that suddenly got a lot of traction. When you look at the Dodd-Frank Act and all of a sudden they said there's clawback provisions in here. And everyone said, oh, great, great, great. And I said no. Clawback provisions have been in place since 2001. Sarbanes-Oxley imposed clawback provisions, but no one was able to successfully adhere to them or actually make them work. And so it just was the same old thing.

A better way to do that is to have multi-years, compounding years of performance, and have a vesting period of performance. So your long-term incentive plan, if it's holding a lot of that -- the grant equity on an annual basis, that's your envelope that you can adjust, because you're holding that grant in trust and you can make an adjustment there once you realize that there is a retroactive change in performance.

That's the most proactive and easiest way to manage it, because chasing employees afterwards, when they more or less they've spent that money, it's really hard and also very costly from a legal perspective to actually get that money back.

COMMITTEE MEMBER TAYLOR: Okay. Thank you.

MR. KELLY: Were there other questions?

CHAIRPERSON FECKNER: Yes. I have Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you, Mr. Chairman.

Brad and Peter, thank you. This has been a really helpful conver -- conversation and presentation. I want to go back to pages eight and nine from your presentation.

MR. LANDERS: Okay. Maybe while Brad is going back, maybe you'll ask the question and then we'll --

COMMITTEE MEMBER MIDDLETON: Sure.

MR. LANDERS: -- make sure it's on the screen for everyone.

COMMITTEE MEMBER MIDDLETON: All right. You know, in many respects, I thought this was the key to almost everything that you were talking about in terms of the difference between threshold, target, and superior performance. Immediately my concern was that what we're going to end up doing is creating benchmarks that produce a superior reward seven, eight, nine, ten times out of a decade. And so I've got to believe that comes back to how effective we are in creating what those benchmarks are going to be and the clarity of the understanding of the participants in the program that getting to superior is something that's going to happen rarely.

So could you talk about the communication models that you have for explaining these programs to the people who are going to be participating in them and how it is that you go about setting those benchmarks to make sure that we are, in fact, getting something that has 80, 60, 20 percent probabilities?

MR. KELLY: So typically what we do is we look at previous historic performance. So we do a look back to say if you were to have these targets in place over the last few years, what would your level of achievement be, your hit rate? And if it varies from the probabilities that we've set out here, we would advocate that you make adjustments to get there.

What we find is that anything -- if you have objectives and targets that are historically being hit above target, that is the expectation now and that becomes more of the so-called right of the employees. They feel that they're always going to be getting that superior performance, because they're superior performers. But if you can calibrate it properly and do it objectively -- so we always say if you're to go through this exercise, you share the results with the participants. They look at it and say from a fairness perspective, this has been objectively tested and we're going to stay on top of this objective analysis to make sure that we're constantly focusing in these probability areas, so that we're objectively retaining that level of fair attainability within the plan.

And that's the key thing, transparency, showing the objectivity around the plan, that's the key one. The example I shared with you earlier with regard to the client that -- new CEO had these unbelievable expectations. As soon as we did the study, we shared it with all the employees. They looked at them. And some of them were real stretch goals, but they saw them as stretch goals and they treated them as stretch goals, as realistic stretch goals. And that's what you want. You just want employees to say, you know, you're being traded -- treated fairly here, and here's the analysis that -- the underlying analysis that's supporting this -- the design of the plan that we're putting forward.

COMMITTEE MEMBER MIDDLETON: But you're starting with looking back at what performance has been and establishing your goals for the future based on that. And we know that markets are unbelievably volatile over time, so help me -- help me get a little more confident that that stretch goal is truly going to be a stretch.

MR. KELLY: So if you look at like annual performance, usually it's a blend of three, five, ten year performance levels. And that blend actually helps to smooth out market irregularities and that's what you want. So it's not just a one-year perspective. It's a blend. So each year, here's what the three-year performance was, here's what the five-year performance was, here's what the ten-year performance was, is this fair? And -- but you're totally right, looking at any given year in isolation, provides a level of risk that, especially in the investment world, is just not realistic.

COMMITTEE MEMBER MIDDLETON: Right.

MR. LANDERS: Yeah. I think that's where Brad's point about, yeah, looking at the longer term time periods, what was the annualized rate of return over those time periods. Looking forward, if you've done any sort of projections on where you think -- you know, where staff feels that, you know, based on your risk and reward appetite and any changes you make to your policy, you know, what the expectations are from the perspective, it really is looking at, you know, both the -- using that look back, but also looking historically at different time periods, longer time periods to really gauge on what's fair and what's reasonable.

And again, this is where a collaborative approach in terms of, you know, running the analysis, getting management and staff's input as well, who are, you know, doing this on a day-to-day basis, and, you know, what they're seeing in the marketplace, you know, very much can help in getting that buy-in at the end of the day on these different performance levels and the performance expectations.

MR. KELLY: And then -- and, Lisa, to your point, when you look at public pensions, in general, they are historic institutions. They're long-term -- long-term investors with long-term strategies, and so it's easy for us or anyone to do a look-back analysis, because a lot of your objectives really haven't changed significantly. And if they have, there better be a really good reason for it, right, because, you know, you've had -- you've had a structure in place for a long period of time. There can be tweaks. There can be adjustments along the way. But more or less, the overall design of your strategy doesn't change dramatically year over year, so it gives you a great opportunity to do that look-back analysis just by the, you know, true nature of your organization.

COMMITTEE MEMBER MIDDLETON: I want to pick up on a question that Ms. Taylor had. And I can appreciate how difficult it is to execute any kind of clawback strategy. But if we're trying to think long term, and you both made a really good presentation around the importance of long-term results, that would seem to argue for some substantial delay in the payment of long-term incentives until we have demonstrated that they actually have been sustained.

MR. LANDERS: So I'll just quickly get in on that. One thing I can say is in publicly-traded companies, there is this idea -- and it's still relatively new in the marketplace. I think sometimes it's the big banks that have it, this idea of what's called almost like a post-retirement or post-termination holding period.

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. LANDERS: And basically it relies on individuals to hold their underlying shares in say the big bank for a year or two years even after they leave the organization. Now obviously, you know, there's no real share capital at a pension fund.

COMMITTEE MEMBER MIDDLETON: Right.

MR. LANDERS: But another way in which you could approach this under different termination scenarios, specifically in say a case of retirement is you actually allow the plan or the LTIP program to vest over the normal course. So if someone retires say two years into a five year performance period on the LTIP, you would actually have them wait the full three years until that full three-year period is up for any payout potentially to be paid after they've left the organization.

And the thought behind that would be -- again, this would be market leading for pension funds, but you would essentially pay them, you know, in retirement based on, you know, after they've left the organization sort of the success and did they, you know, put in any kind of risk that ultimately led to a decrease in returns on a longer term basis. And you would be able to reward them accordingly if it went up or if it went down after that retirement date. So that's one way in which we're seeing, you know, some of these sort of longer term risks and trying to tie individuals to longer term results.

But I can say that would be very much market leading. You would be a first mover there in terms of those types of things in the pension fund world. So, you know, that's why I think Brad says, you know, some o the practicalities of that can be -- can be challenging.

But definitely, you know, having longer term performance periods, the idea of long-term incentive the ties to longer term results is moving in the right direction.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, gentlemen.

CHAIRPERSON FECKNER: Thank you.

Mr. Jones.

PRESIDENT JONES: Rob, I'll wait until the Committee members finish and then you could come to me, if that's -- unless you want me to go ahead.

CHAIRPERSON FECKNER: No, that's all right.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Thank you, Mr. Chair.

I had a question about establishing peer groups and making those comparisons when you're making adjustments or looking at kind of where you fit in the market comparison. Do you see that the -- you establish a single peer group that's used for all types of pay, the base, the long-term, and the short-term incentive? Do you see where different peer groups are used for different types of incentives. Just wondering how that would look.

MR. LANDERS: So the answer is we typically use the same peer group to evaluate all elements of pay. What we do do with some organizations is if for some reason there's, you know, a private sector comparison let's say that we know they pay way too much in the marketplace, but you look -- you say, you know what, I want to make sure that the structure of how we pay our people is appropriate. Sometimes we will have, what we call, almost an aspirational peer group, where we wouldn't necessarily; look at the pay levels of that peer group, but we'll look at the structure of the pay and what they offer to their executives, to their investment staff. And we will -- we'll use that just to guide the design of pay and not so much the pay levels.

But typically whatever that pay level - I'll call it the pay level - peer group is, we use the same group for that comparison.

VICE CHAIRPERSON ORTEGA: Okay. Thank you.

MR. KELLY: Are there any other questions?

CHAIRPERSON FECKNER: Ms. Brown, please.

COMMITTEE MEMBER BROWN: Thank you, Mr. Feckner.

Thank you for the presentation and for walking us through this. We definitely needed this training. And I, too, want to focus on page eight, like Ms. Middleton. I just love -- I love darts. The question I have, and there has been some concerns for me, is, you know, giving a payout for hitting a benchmark. So basically, you know, I believe that hitting a benchmark is the minimum requirement. And I'm curious as to what your thoughts are about that. Because if you make the benchmark, I don't know why you would get a bonus over your pay, because I consider that doing your job.

And then as you, of course, exceed the benchmark as you create alpha or you create more returns and you beat the bench -- and you beat the market so to speak, then is where you jump into these higher returns. So I'm just trying to figure out where your little 50 percent, 100 percent, and 150 percent towards superior, I mean, I wonder how that equates to sort of what CalPERS has been doing with our current incentive metrics.

MR. LANDERS: Great questions, Margaret. We haven't had the chance to really do a deep dive and look back at all the historical performance and look at the 80, 60, 20. Maybe that's something we can definitely work with the Committee in the future.

But what we can say is typically in most pension funds that we work with, that benchmark -- hitting that benchmark is sort of seen as that threshold level of reward. And only when you start exceeding that benchmark do you start to earn an incentive for that portion of the award.

Now, going by that 80, 60, 20 rule, you know, if you wanted to stick to that 80, 60, 20 rule, that most likely would suggest -- and I think, you know, CalPERS has done this in the past, setting that benchmark slightly even below the benchmark, because essentially there -- you know, over a ten-year period, there's probably going to be a year or two where you don't meet that benchmark level of return.

So you do have to balance out, you know, sort of the rigidity of being 80, 60, 20 with, you know, do we want to -- you know, fundamentally ask the question, do we want to reward people for, you know, meeting the benchmark or not. So that's sort of a fundamental question that I think the Committee and the Board just need to, you know, make sure that everyone is constrained on. And then once you have that answer, you can then set the appropriate hurdles accordingly.

But I would say market practice would be that the threshold or the minimum performance expectation is to meet that benchmark and then you start to earn that incentive for, you know, the value add that you earn above that benchmark return. That would be the more common practice we see, when we look at public pension plans.

COMMITTEE MEMBER BROWN: Thank you for that answer. And I hope that this Committee will take that up in the future as to what -- as to what point we start the incentives. I know, that there were concerns that as staff tracks their incentives, and they do -- anybody who works on -- I know we're not supposed to say commission or bonus. But anybody who works on an incentive knows exactly where they stand. And the concern was is that if staff was getting close to hitting the incentive, that they would take more risk in order to hit that incentive target. And so that was the discussion as far as I recall why they were paying an incentive, even though they didn't hit the benchmark. And I still don't think that's a good enough -- I don't think that's a good enough answer. I think we should make sure that staff is doing their job and not taking on more risk than they're -- than they're supposed to.

My next point is on where the incentive is paid on total fund or based on the individual like asset class or the asset class management. And I think CalPERS errored when we took that pendulum and shifted it a hundred percent the other way because that's how a pendulum works. And instead, I thought that basing incentives on the total fund -- so let's say that you're running whatever asset class and you do gang busters, and every other asset class tanks, you know, so that means that your asset class, or the part you're responsible for, is not getting that incentive. And so that makes no sense to me.

And I think it needs to be a balance, which is always difficult to find. But I would like to see it be a balance between total fund and their asset class. That way they really have skin in the game. I mean, they real -- I mean they're working hard, they're working for that incentive, and it's not just for their department, but it's also for total fund. And that's where I hope eventually the Committee and the Board ends up with on incentive compensation. If you have any comments on that.

MR. LANDERS: The only comments I will suggest is definitely you want to make sure in that annual incentive plan that a meaningful amount of the incentive is tied to total fund. That's definitely -- you know, you want everyone moving in the right direction. But it would be typical market practice, and from a line of sight perspective, for that individual that again works in a specific asset class to have at least a portion of the incentive tied to their -- to their asset class results.

Again, long-term incentive definitely tie it totally to total fund team results. And that will make up a meaningful portion of everyone's incentive who is eligible for that. And on the annual incentive making sure that, you know -- and this is what we find is, you know, pretty standard market practice is making sure you have that good weighting on both the total fund performance, but also on the asset class performance. That is something that is quite common. And it was something that definitely stuck out to us when we looked at the CalPERS model that was unique to CalPERS. And definitely understand some of the rationale, but is there a way that we can get to a good sort of midpoint where we can, you know, have that good mix between both the asset class and the total fund. That is, you know, a -- sort of a result that we would at GGA like to see come out of this exercise.

COMMITTEE MEMBER BROWN: Great. Thank you.

CHIEF OPERATING OFFICER HOFFNER: Margaret maybe I could weigh in a little bit there. This is Doug Hoffner, CalPERS team member.

So some of that asset class is being recognized in the qualitative portion of the metrics that exist today. And we have -- you know, based on the decision that the Board may, we have phasing into a total fund. But anybody who has had that asset class piece since 18-19 fiscal year has also continued to have portions of it. It was being phased out essentially over time, but it is embedded in that qualitative portion of the incentive plan.

And it's part of the plan design. It's not really in the policy per se that we're discussing, but it is part of those policy design metrics that are out there. So I just wanted to make sure we were providing clarity there.

COMMITTEE MEMBER BROWN: Thank you, Mr. Hoffner. I appreciate you sharing that information. That is helpful to know. I just -- you know, I don't want people to lose their incentive of doing, what do you call it, line of sight or whatever they have responsibilities for making sure they're doing their part and everyone is doing their part and then for the total fund to payoff.

I also like to hear you -- like hearing you guys talk about, you know, getting to a hundred percent funding and a hundred seventeen percent funded. I mean, that sounds great to me. I know it's a long-term plan and I'd be interested -- I don't know if any of the other Board members were, but interested in seeing how the Canadians, and I'm sure other pension plans as well, have done that. And I know it's a very long term strategy and it's a commitment.

And it looks like CalSTRS is kind of moving that way. And I'm very excited to see that another state pension fund is doing that. And hopefully, we can move towards that. You know, I don't know if you saw the earlier presentation, but our management fees and performance fees are going up 30 percent, hundreds -- hundreds of millions of dollars. And if we actually developed a plan and a strategy to bring a lot of the work in-house -- I know -- I know it's a long-term plan, a long-term strategy, but we could save a lot money and reinvest it back into the fund. I just -- I strongly believe that. You know, it's one of the very few things the Canadians are doing correctly.

Sorry, gentlemen.

(Laughter.)

COMMITTEE MEMBER BROWN: But it's a big one. It's a big one.

(Multiple voices.)

COMMITTEE MEMBER BROWN: Okay. Well, and hockey well too. Okay.

(Multiple voices.)

COMMITTEE MEMBER BROWN: But anyways, that's my comment. Thank you.

CHIEF EXECUTIVE OFFICER FROST: The actuaries will be bringing forward our funding plan. We've shared this with the stakeholders Our funded status -- if fiscal year returns continue through June 30th, our funded status is moving the way that we would predict it to move roughly at 75 percent funded today, based on the fiscal year-to-date returns. So I think through the ALM cycle, you will see our plan moving forward to get to full funding. And all of the underlying assumptions that are associated with that would be some of the decisions that you will all be making this year.

COMMITTEE MEMBER BROWN: Thank you. I'm done.

MR. KELLY: But to -- just to respond to that. As most of you know, we've been working with CalSTRS for about 12 years now. And so we have been, you know, slowly but surely trying to direct them into that format. We historically -- the whole reason why we've been doing our education and working with U.S. funds is because of the work we did with transformed funds in Canada. We'll speak frequently at conferences and people will immediately want this so-called Canadian model.

Well, it's not really a tried a true model.

There's nuances throughout. Every fund has adopted it differently. But there are well-documented practices that help get you there. What we can say is that you're not fully pass -- you're not passively managed. You do have some active management strategy internally. So you're well on your way in this direction. It doesn't -- working with our clients and advocating that they increase their internal capacity and decrease their overall management fees does not make us popular with the investment community, because it just, you know, takes out the fee structure of Wall Street.

And -- but you have the ability to do it. And the last part -- portion of the session there that Peter was walking you through, one of the key things that a lot of you mentioned was that you recognize there's difficulty in bringing a high performing investment professionals into your local community, because it's not so-called, you know, a really hot area to live.

Well, you know, if you make the -- if there's the right -- and we always say, if you have the right opportunity and the right value proposition, you can get whoever you want. And don't ever listen to these private sector individuals who say they'll never ever, ever want to work for your fund. You're close to a half a trillion dollars fund. You do some really, really enjoyable stuff.

And so therefore, you can start your strategizing around how you can broaden your -- the opportunity you're providing these professionals.

Also, you saw the last slide that Peter was talking about, the satellite offices that are being opened up globally by these funds. You certainly can afford that. And what they do is they have, you know, boots on the ground locally. That gives them access to immediate assets. Time is money in this marketplace. And you want to be able to have access to these opportunities and ability to do your due diligence as quickly as possible, so that you can get to these assets.

An example I often like to use is the State of Massachusetts, they have roughly about 154 funds within their state. Well, one Canadian fund owns more real estate assets than all 154 funds combined. Why? Because they have an office in Boston with people on the ground.

And to your earlier point about the risk appetite and taking more risk. As long as you have well-defined policies and processes in place, a well defined risk appetite framework that everyone is expected to adhere to, and if they don't, it's automatic grounds for dismissal, no questions asked, viewed -- if you veer outside of this -- of these confines, you're done. And that has to be very clear. But as long as you give them a well-defined envelope of risk they can work in, they can actually make those decisions on the ground. And it leads to, you know, quicker decision making, better due diligence, more of a team effort. But it gets you these assets -- these valuable assets that everone is fighting for. It gives you that opportunity to get them faster.

And that's where these funds are leading and they're able to hire these professionals in all of these other areas too, because if people don't want to work in Sacramento, well, they can also -- they can work in, you know, London, or New York, or Dubai, or wherever you want to set up a satellite office where you think there's market opportunity. And that's a -- that's a broader strategic plan for you, but, you know, that's -- that's a longer -- longer game to play here and it's not going to happen overnight.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Am I next? I'm sorry.

Sure. I had a couple of more questions. Hold on one sec. So one of the questions that I had was I think -- I forget who talked about qualitative versus quantitative. Maybe Doug brought that up regarding asset class incentives. But I also want to -- I just want to reiterate that if -- that we already do the ESG strategy saying that we're on the outside in the peripheral of everyone else I get, but it's because we lead in this strategy. And we're not saying it's a main part, but it's part of our quantitative -- or our qualitative part of the incentive review, right?

So along with having the asset class -- and I get, maybe having a small portion of the asset class have some sort of incent -- incentive as well. But I just want to make sure that we keep on considering this, because we are now demanding and seeing return for it from other -- from companies. So we are the ones that are asking for corporations to base their pay now around targeting, you know, their climate goals, their carbon emission goals. We're the ones asking for additional bonuses of -- at companies when we do our proxy voting for meeting D&I goals.

So if we're not taking that part as -- in the quant -- qualitative part as part of this, we're missing the boat here, because we're eventually going to end up with stranded assets, if the 2050 goals are met, et cetera. So, I mean, these things have to be taken into account. So that's one of my problems with it.

And then additionally, I thought -- I kind of have a question, because one of your -- part of your presentation talked about effective communication, right? So talking -- so the expectations, talking to the employee. And I think maybe Matt or Robert may need to answer this, because we have specific rules about the employee and their incentive plan that is -- that's the law from the State of California.

And then additionally, I just wanted to comment on, I think -- what Canada is great. You have an entirely different setup and we also have different rules for the State of California and For the United States.

So, you know, having these offices we considered it. It's not something we haven't considered. We, you know -- and we've considered other strategies as well for private equity, et cetera. But there is a different -- you're a different country. You have different laws than we have, so -- but in any event, the one question I do need answered is either from Matt, or Robert, or whatever, if we could kind of expand on the -- whether or not that fits into the 1090 rule to be able to, you know, participate on this incentive plan, because that sounds like something we wouldn't be able to do.

Like, I mean everybody always has to leave the room, so...

GENERAL COUNSEL JACOBS: Yeah, it really doesn't, Ms. Taylor. And we need to have that conversation with

Brad and his colleagues, so they understand the limitations on that model, Brad and Peter.

COMMITTEE MEMBER TAYLOR: Okay. I didn't think so. Yeah. It's a great idea. And if they could do that with everybody, that would be great, but I thought that was a problem. Okay.

And then if you guys want to comment on the ESG Strategy or the asset class strategy, that's fine.

MR. LANDERS: Yeah. So we're happy to talk about that. I think definitely on the ESG front, we're definitely not saying that we shouldn't consider D&I and we definitely think that there is -- it should be a meaningful portion on the qualitative side of things, that should always be considered with individuals and meeting those DEI and meeting those ESG objectives, what have you, for those individuals.

Definitely makes sense. It definitely makes sense. And definitely, you know, happy to speak with Matthew to get further clarity of. It's like we've -- you know, we've worked with CalSTRS for many years now, so we definitely do understand a lot of the limitations in terms of what can and cannot be discussed with staff members.

And so, you know, we'll obviously -- you know, we're used to working within the rules and we're not advocating obviously to break any of the rules or the laws there, but we'll definitely, you know, double check with Matthew on that.

But yeah, we're definitely aware of some of the limitations and its obviously -- you know, that's why Brad had mentioned earlier that, you know, they're nuanced and differences between different funds and how you can approach different things. And so, you know, it's just about finding, you know, the right solution and strategy that obviously worked within, you know, the guidelines and any limitations currently that the CalPERS is facing.

MR. KELLY: When we work with the pension community, we often say that the kiss of death is when we come in to work with our client, and they say, well, this is the way we've always done it.

And you can't -- you can't be complacent. So our objective today was just to propose best practices, what's out there, get you thinking about your current model and ways in which you might want to improve or change the model, and to question some past actions or decisions to you -- to -- you know, to do a double check to say, you know, is this something that still holds true, is this something we still need to keep in place, or is this something that we're going to advocate to change.

This -- these are all questions that we want. We want you as trustees in this pension fund to consistently question the model and look for ways to improve and that was our sole point.

And that being said, we just have a few more slides to go through, which I think is quite important, because we want to address strategic communication with your Board around this topic.

CHAIRPERSON FECKNER: Well, since we started on questions, I can't cut them off until the rest of them have gone through, so --

MR. KELLY: I totally understand.

(Laughter.)

CHAIRPERSON FECKNER: -- you shouldn't have started.

(Laughter.)

CHAIRPERSON FECKNER: Ms. Olivares?

COMMITTEE MEMBER OLIVARES: Thank you. One question about the culture around this. So I understand that investment positions typically come with a bonus and I understand why the proposed structure is at a -- is structured in such a way. But in terms of CalPERS and its culture, when we have the Investment Office that would receive a bonus, even if there's just adequate performance, not stellar performance, how does that affect the rest of the agency, for example, when others would only got a benefit -- or a bonus, if they exceeded a certain benchmark in terms performance, according to whatever performance guidelines we have.

MR. KELLY: That'a a great question. It's something we deal with a lot with any, you know, public institution, where there is some investment-related activities. And our answer is simply the transformed funds were able to do this by having a very performance-driven culture. And by that, I mean -- and it's a hard pill to swallow, but there's definite performance expectations and if you're not meeting those performance expectations, you're politely asked to leave, because you're not meeting the needs of the organization.

If you have higher performance expectations and a certain level of possible attrition in those levels, people say, well, there's -- there's a definite give and take. There's balance there. So people who don't have access to incentive, they say well, I have a bit more job security here, because not -- I'm not -- I'm not being evaluated on a daily basis to make, you know, split-second decisions on, you know, investment opportunities and portfolio strategies.

And so I would gladly give up that incentive structure to have a bit more job security, where I know that the pressures on that side of the fence are far greater than what I experience. And that's -- it's tough.

It's definitely a cultural change for an organization, but that's the way a lot of these organizations have been able to retain both highly incentivized group versus a group that's more of a traditional public sector group.

COMMITTEE MEMBER OLIVARES: So I'm not sure that the pressures are so incredibly different. So I think there's two parts of this, just to clarify. One is that again we're taking one group of employees and saying that you cannot meet your target and you still get a bonus and then another group of employees might not even be eligible for a bonus, even if they exceed their performance expectations, or some of them will be eligible to receive a bonus, if they do exceed their performance expectations.

So it just creates a different way of rewarding performance internally. And I understand there's some market dynamics here too. But just in terms of the culture that we have, I think it's really hard to send the message that we value our team -- our employees in a way that is fair.

If it was just the Investment Office, for example, earning a bonus once they exceeded a certain target or a benchmark, and that type of structure was available to everyone who was eligible for a bonus, I think that might be perceived as more fair.

MR. LANDERS: And maybe I'll just -- I'll just feed into this. I think what we've typically seen is, you know, within, you know, incentive programs, you know, whoever is eligible -- typically there will always be some sort of, in most cases, total fund performance that's tied into the incentive. Obviously, those that have more oversight over the investments will have, you know, higher weighting on investment performance results, but there is typically always some portion of the incentive that is tied to investment results for everyone.

And then really it comes down to the line of sight in terms of making sure that those individuals, you know, that are incentive eligible have, you know, appropriate line of sight and appropriate control over their performance. So if you're talking about someone that's managing, let's say, pension administration and pension benefits, well, you don't want them to be necessarily tied, you know, 80 percent to investment results, which they have very little control over.

And the only thing I would say is, you know, whatever expectations are set, whether it's, you know, we're going to have really high stretch targets, you know, for these individuals or really set the bar high in terms of earning a performance or we're going to set a fair, and reasonable, and, you know, motivating target, but still reward for a little bit of performance below that level.

That sort of philosophy, once it's approved sort of as a philosophical statement by the Board, should then be cascaded down to, you know, all types of positions.

So it shouldn't be that, you know, investment professionals are being tied to a lower standard of performance than non-investment professionals or vice versa. You should be using the same philosophical approach to both sides and just setting the performance expectations obviously appropriately depending on, you know, investment performance being one set of -- you know, having one set of expectations that are fair and reasonable or real stretch and then tying that same philosophy or that mentality to the setting of, you know, similar targets for the non-investment staff.

We wouldn't want to see silos where one group and its expectations are set differently than the other. You should be using that same philosophical approach, albeit with different metrics potentially by using that same philosophical approach for all incentive-eligible staff.

COMMITTEE MEMBER OLIVARES: Thank you for clarifying that.

CHAIRPERSON FECKNER: Thank you.

Mr. Jones.

PRESIDENT JONES: Yeah. Thank you, Mr. Feckner, Mr. Chair. Yeah, I have a couple of comments and then a question.

One of the comments is that I was also concerned about paying incentives when you're not hitting your benchmark as Ms. Middleton and Ms. Brown indicated. So I would like to see us have a further, deeper discussion regarding that.

The other one is the global offices. It's interesting I see this here. I recommended that over six years ago, but it didn't gain any traction. And so it's interesting now that I see that, you know, it's one of the market-leading issues today. So I would -- I guess we'll ask the Chair of the Investment Committee, Ms. Taylor, if she could agendize that discussion at the Investment Committee. I would appreciate it and have that discussion about global offices with boots on the ground was the theme then and I see it's still the theme today.

COMMITTEE MEMBER TAYLOR: I certainly will. I don't remember why we dropped it, because I remember that.

(Laughter.)

PRESIDENT JONES: Okay. So if you could just make sure that that's -- and I appreciate it.

And then my question goes to -- to -- you mentioned that the cost -- the funds are annually losing one to two percent due to poor board governance. And I would like to understand what are some of those issues identified as poor board governance that's driving the loss of that one to two percent.

MR. KELLY: So this was a study that was done by Keith Ambachtsheer who's the founder of CEM Benchmarking. It was a global study roughly -- if I recall the details correctly, it was done in 2007, included roughly about a hundred and eight-four funds globally. And what they determined was that poor governance was actually costing funds, as Peter mentioned, one to two percent annually.

The key areas that they were looking at were the overall compensation of the Board and the skill set of the board; the financial competency, whether you had investment professionals or people who were being educated on a regular basis on financial issues like investment practices, actuarial practices, things like that; a commitment to the overall -- a clear commitment to the overall long-term strategy of the fund. You'd be amazed at how many funds Peter and I work with and when we walk in they don't have a strategy at all in place. It's literally, you know, a biweekly meeting and that's it. They've never put a long-term strategy in place, which says you're a ship without a rudder and a keel. Like, you're -- how are you even guiding where you're supposed to be going as a board.

Also, competitive compensation and strong incentive programs was another element that was in there as well. And that's part of that Canadian model that -- that everyone talks about. Believe it or not, it was Peter Drucker who came up with a core -- the core elements of this so-called Canadian model in, I believe, 1974. He published these core elements and no one paid attention until roughly the nineties around these core elements.

And that's -- you know the key elements that help to drive that good governance. And the other is a commitment to overall governance measurement and effectiveness, so looking at your own governance performance as a board, and tracking that, and finding a proactive way to have a workplan that continuously improves your governance model and your efficiencies as a board to help guide and oversee this fund that you're entrusted with.

PRESIDENT JONES: Okay. Well, good. And I -- because we're embarking upon our -- you know, every two years, we have a board self-valuation. And so we're getting ready to embark upon that currently. So I would appreciate it if we could make sure the Board members receive that document, if you could do our -- you know, through Ms. -- through Marcie, if you don't mind, to be sure that we have access to that document, because we will be -- and on your point about the commitment to strategy and recognizing that we're in an environment where we have -- six of us are elected, four are ex officio members that turnover with their seats and whoever is elected. So board members are not elected. So you get the turnover. So how do they maintain that long-term strategy in terms of that turnover, new ideas come in, and the effort to change and change direction? So how do you maintain that long-term strategy when you have this kind of turnover?

MR. KELLY: Well, Peter and I often say that a certain level of attrition on a Board is healthy, because it allows you to bring in new ideas, new perspectives, different viewpoints, which is fantastic. And the more you can diversify your board, in terms of background, skills, capabilities, the better. There's a lot of research around that.

But when you look at the strategic plan, the strategic plan should be outliving most of your Board members, so that you have a certain percentage of your board that helps create that strategy, you have new blood coming in. And then, you renew that strategy and establish something more. You have -- you're on a five-year cycle.

And that's what you want. You want that five-year vision to be out there leading that board, so any new board member that comes in automatically can take the strategy and say where are we on this continuum and what do we need to achieve to get to the end of this strategy before we envision and renew the strategy?

PRESIDENT JONES: Okay. Okay. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Yee.

BOARD MEMBER YEE: Thank you, Mr. Chairman.

I just had a question and maybe it leads into this last section you're going to be presenting on on communication strategies, and that is I guess any best practices around timing of compensation adjustments. And I'm just thinking about certainly this past year, where we've had a lot of challenges and strains. We're embarking on the upcoming ALM process. And then just -- and then just in light of recent compensation adjustments in the Investment Office, I guess I'm just trying to figure out, you know, are there kind of some typical practices about, you know, timing of when these types of considerations do get made across funds? And if not, as you embark on this next section of your presentation, how ought we kind of frame that, in terms of a communication strategy, if we are to decide as a Board that adjustments are warranted?

MR. LANDERS: Well, typically, you would, you know, conduct a pay benchmarking study. You'd probably actually want to have the results, you know, and be discussing those results probably around the same time frame as this, two or three months before the start of your newest fiscal year. And typically, you would use the results of that study, potentially, you know, do some follow-on analysis to -- maybe after an initial discussion, but you would try to enact those, you know, salary adjustments, incentive award opportunity levels before the start of any new fiscal year. So, you know, for you guys July 1st.

And, you know, if we think of this from a -- you know, a public company perspective, which, you know, is another sort of viewpoint looking at it, typically they'll finish off the year - let's say it's a calendar year, December 31st - and they'll make those adjustments and potentially even make them retroactive to the start of the year. But they might make those in say February after they've done it.

But you definitely want to be doing it no later than the first quarter of your new fiscal year, and ideally get them in place for the start of the fiscal year. We just want to talk with your general counsel to make sure about timing and how that would work, because we've, you know, run into some -- a couple little timing issues at CalSTRS and making sure that we're aligning with, you know, any of those rules.

But ideally if you could have them in place for July 1st or the start of that new fiscal year, that is the idea situation to be in.

BOARD MEMBER YEE: Okay. So no -- I guess any observations about the relationship of compensation adjustments and -- for example, the ALM process?

MR. KELLY: Well, your timing should remain consistent, because you want your employees to have trust and faith that you're staying on top of things. So it's -- the timing of your assessment should be on an anticipated schedule, but it's the -- it's the implementation of your decisions that you should have discretion on. So if there's, you know, economic pressures, situational things that would pressure your Board not to totally adopt, you know, certain adjustments or what have you, you have that discretion.

But as long as your open and transparent as to why you're doing this and what your Board believes is fair and justifiable to the public, to the public, to your members, to the employees themselves, that's -- as long as you're open and trans -- and we'll get into the communications stuff.

BOARD MEMBER YEE: Uh-huh.

MR. KELLY: But transparency is key, and as long as you can that you're objectively assessed this, you know what the results are, here is the decision you made and why you made that decision, you know, that's a fair and defensible process.

BOARD MEMBER YEE: Okay. All right. Thank you.

CHAIRPERSON FECKNER: All right. Well, thank you, Brad and Peter, continue on with your presentation, please.

MR. KELLY: Thank you. Thank you very much. We'll try and go quickly through this last portion. Can everyone see the slides? I just want to verify.

(Heads nod.)

MR. KELLY: Excellent. Thank you.

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MR. KELLY: So, at this point, we want to talk about your role as trustees, particularly members of this committee, as well as the commitment that we're making as your advisors. Building off of what Peter talked about on the transform side of what we're seeing in terms of a lot of pension evolution, compensation is oftentimes a lightning rod. And it's often times a headline risk that you're going to carry forever to be realistic. And it's -- so this is something that we ask that you proactively deal with. And we want to work with you on this to make sure that you're not being caught off guard that you are prepared, and you know exactly how to deal with headline risk as you move forward, especially if you're looking at possibly transforming and further internalizing your investment capability, it will have pressures on your compensation levels. And we want to make sure that you're prepared to deal with this in a very proactive way.

What we know is that, you know, you need to have a certain level of prevention in here and you need to address any issues before they start. And there's definite ways you can do this. And you need to have a planned response before something was to occur. So as you're about to make announcements where you can have some canned responses or, you know, in some untraditional transparency that you wouldn't have done in the past just to try and try and take the wind out of the sales of the media, particularly the media.

You want to promote safe -- your -- and safeguard your culture and the reputation of your organization, and you want to set a tone at the top. This is your board's philosophy. Your Board has helped decide this. This is your Board's direction, and you're committed to this because of these benefits that you know are going to follow out of the decisions that you're making.

You're going to ensure that there's openness and transparency with your stakeholders. This is often very difficult for pensions, because oftentimes the media will misrepresent what they're seeing, because it suits their needs. If it bleeds it leads, and that's what the media loves. Great example of this is when you were deliberating over the inclusion of the LTIP with your CIO, immediately, the media, everything that Peter and I saw in the media they were communicating maximum payouts. This is what we're going to pay, maximum, maximum, maximum. At no point did any of the journalists say this is only related to superior performance that would be from an 8.4 percent annual return over five years. Nobody said that. It was all maximum, maximum, because that was the shock and awe.

And so if you can be open and transparent in relation to how things are designed, why they're designed that way, the objective proof behind it, it oftentimes takes the wind out of the sails of these external arguments or criticisms. And you have a detailed plan in place. You need to have kind of a in case of an emergency, break glass here. We know what we're going to do and everyone knows what their role is going forward.

And if you can establish a proactive education plan, as well as a proactive response process, you will be prepared as trustees.

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MR. KELLY: So in terms of the Board's role, we want to make sure that you truly are informed on the overarching compensation philosophy, as Peter mentioned. This is the what, and the how, and the why statement. This -- and you also want to look at compensation fairness and objective assessments, so that you know how did you benchmark this, how did you come to this determination, what do you know is out there in the marketplace and why is it that you came up to the decision that you made, relative to your peers, the market, the relative positioning to these positions in the marketplace.

What is the overall compensation design? And what is it meant to do? That's a key element. And if you know that incentives are not bonuses. They're not a given. It's an incentive and it's at-risk pay. And if they hit these targets and if they do perform, they will be rewarded. That is a different -- that's a different argument than saying they're going to get a bonus at the end of every year, okay? And you need to be consistent with that and understand the argument behind it. Know what the purpose of the incentives are, and each of the objectives, and why they're there, and how they're aligned to the strategy, and what will it -- what will it -- how will it benefit your fund going forward?

In terms of performance achievements, what are the material gains? One of the pieces that we provided your committee that we're going to be discussing just shortly after this, we talk about a five-year maximum performance at 8.4 percent is a material gain of 32 billion -- $32 billion for your fund over a five-year period. That is material. And if you can actually communicate metrics like that, it actually takes the wind out of anyone's critical argument, because they say, wow, we would love to see a $32 billion gain in our fund. That would be great. And we only pay a small fraction of that net gain in incentives. That is money well spent. And it's a different argument than saying, you know, we're paying X amount. It's pay for performance and it's aligning that.

And then making sure that you're disclosing in a transparent way that you're applying best practices, both in the public sector and the private sector, because I there's things to be learned on both sides and you should be constantly aware of what those best practices are in terms of compensation disclosure, so that you can meet the market's interests in the both private and public sector, and show they're being proactive on how your communicating the compensation design.

And then also, as I said before, have a proper communication best practices, which is having a Board policy around how you're going to address communication and dealing with external pressures.

You know -- and you need to always be armed with insightful and objective information and speak with one voice and that's key. You're a Committee that's helping to guide your Board. And you're coming to a conclusion and decisions as part of this Committee and as part of your overall Board and you need to speak with one voice. That is really, really -- it's tough to do and we acknowledge that. But if you want to deal with the external criticisms and if you want to stay true to the strategy that all of you bought into and are trying to -- trying to realize, then you need to work together as a team.

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MR. KELLY: A communication policy itself, it provides a process for all your trustees to follow. First and foremost, it will say, you know, what do you do if media reach out -- reaches out to you and has a question about compensation, particularly about compensation, that's what we're hear to address, you know, how are you going -- how are you going to deal with that? Who will be the designated spokesperson. So is it -- is it the Chair of this committee or is it the Chair of the Board that will address media concerns around this? How will that -- the key speaking points be established? Who will be brought together to say here are the key speaking points and how we're going to be dealing with this external criticism. And then what is the follow-up strategy? How are we going to deal with external stakeholders, the media, our plan sponsors, to make sure that everyone is clear on why we made the decision and what's happening here.

Having proactive disclosure is really key, as I mentioned before. You need to determine, you know, what you -- should you be sharing and how is it best to be shared out there publicly? And you need to ensure that your organization is being open and transparent with your stakeholders, because everyone has that proverbial smell test. And if they feel that it's not passing that smell test, that's when you're going to get in trouble. So it's best to be open and transparent to say, here's the how, why, what, and who. And this is the decision we made, and the objective proof behind it, and the performance metrics behind it, and the benefits we're going to receive. And sharing that information oftentimes gets critical members of your community to say, I get it. I get why it's -- why it's structured that way. I get why they make what they make. And I get that they're entrusted with running almost a half a trillion dollar fund that has a significant economic impact in our state. I get it.

Annual planning. You need to be looking at this policy on annual basis and making sure that it still holds true, that you're using all the communication venues or vehicles to the best of your ability. And the reason why we say this is because the communication strategy often changes. The emergence of social media has changed communication practices immensely. And this is something that you need to be reviewing on an annual basis, because that world is changing on an annual basis as well. We know that new platforms are being created on a regular basis that are getting different levels of uptake and with different generations.

We're also seeing that faith in certain traditional social media platforms is eroding. So how are you going to manage that to make sure that you are addressing your communication needs in the best way possible, and being as proactive as you can.

And the purpose of having a communication policy is to promote and maintain open, accessible, timely, and transparent internal and external communications with your fund stakeholders and the broader community, making sure that you have that plan in place and everyone has complete clarity on how you're going to address these issues.

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MR. KELLY: I love this quote. It's by Pearl Zhu. She's written a lot on the digitization of various industries. And she wrote Digitizing Boards. And one of the quotes in her book is, "The Board's role is to pull management out of the trees to see the forest". You're focusing on that broad strategy. The realization of the strategy that you helped to create, and you help to shepherd, and you help to oversee. You need to state focused on that broad strategy and not have knee-jerk reactions to external criticisms. You need to say here is the alignment to the strategy and why we're doing what we're doing.

You know, success is based on clear roles and focused efforts of both this Committee and your Board. And effective boards remain focused on strong strategic direction and oversight. If you can use that strategy as your guiding principle, you -- you'll hold true and you'll be able to really deal with external critics in a very proactive way.

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MR. KELLY: Now, a key role is our role. And we don't want to negate our role and our responsibilities working with your Committee and working with your Board. And so at this -- you know, at our first meeting with your

Committee, we want to say, you know, as the trusted advisors that you've hired us to be, we're committing to educate this Committee and the Board at every opportunity. So we're taking this opportunity to start with this education trend and we're going to -- we're committing to continue on on a regular basis.

We're committing to ensure that you as trustees are informed on the objective and subjective rationale behind all our recommendations, so that you're armed with the facts and you know the why, and the what, and the how. We're committed to guiding the Board through safe and defensible processes whenever dealing with compensation governance responsibilities. If you have a fair and defensible process in place, you can defend it. And that's -- that's what we defend to help shepherd and work with you to make sure that you're always -- you're always following a fair and defensible process to come to the determinations that you do.

We're committed to helping your Board fulfill its duties in ensuring that CalPERS remains sustainable. Peter and I are strongly committed to the DB pension world and we want to make sure that you're going to maintain your pension promise to your members. And that is a promise that we're making to you at the outset of this -- the start of this relationship and we're -- we want you to hold us accountable.

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MR. KELLY: With that, that brings us to the end. And so we'll see if there's any final questions.

CHAIRPERSON FECKNER: Thank you. I appreciate the presentation. It looks like you got most of your questions out of the way earlier.

MR. KELLY: Yes.

CHAIRPERSON FECKNER: I want to thank you both for a very enlightening presentation. And I would like to say that, you know, just from my conversation with the Board members, Committee members in the past, it seems like you really listened to what they had to say when you did your interviews, because you answered a lot of their questions before they even got there. So thank you for taking that due diligence.

At this time, before we move on to the next agenda, since there's no other questions, and there's no public comment, we're going to take a 10-minute comfort break before we move on to item number 7. So we'll be back at 2:35.

(Off record: 2:23 p.m.)

(Thereupon a recess was taken.)

(On record: 2:35 p.m.)

CHAIRPERSON FECKNER: We're back in session.

Item 7a, Ms. Tucker.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Chair, and good afternoon again, members of the Committee. Michelle Tucker, CalPERS team member. As indicated in the agenda item, the Board previously approved a Long-Term Incentive Program as part of the compensation package for all investment management positions within the Investment Office, as well as for the Chief Executive Officer.

Since that time, the Committee has received a recommendation to align the compensation package of the CIO position by adding the Long-Term Incentive Program. However, when considering the recommendation in November of 2020, the Committee postponed their decision until it could hear the opinion of the Board's new executive compensation consultant GGA.

A decision on whether to include the long-term incentive will enable any potential candidate for the CIO position to understand the components and earning potential of the compensation package.

So with that, I will turn it over to GGA for their presentation.

MR. LANDERS: Thanks, Michelle. Just a quick question, Mr. Chairman. Would the Committee prefer that I walk the Committee through page by page or should I just focus on the key findings and recommendations and then just allow for questioning?

CHAIRPERSON FECKNER: I think the latter is the best option.

MR. LANDERS: Okay. Perfect.

CHAIRPERSON FECKNER: Thank you.

MR. LANDERS: So I will -- I will assume that, you know, obviously this has been read. I think that the main takeaways for this Committee to consider is the fact that pretty much in -- I would say in all circumstances where pension funds have adopted a long-term incentive plan, any role similar to a CIO level role, because obviously some may not officially have a CEO title, but anyone acting in a CIO role would participate in that long-term incentive, alongside fellow Investment staff members and potentially other senior executives, such as the CEO, and things like that. So it would be quite atypical in the marketplace to have a long-term incentive plan and not have the CIO participate, in such a plan.

And it's mostly because, if you think of it, the CIO is the one that's being put in charge of developing that long-term investment strategy along with the Investment Committee. They're obviously enacting on that strategy and that asset allocation. They're ultimately, you know, guiding that investment performance over the long run to hit the pension fund's objectives. So it would make sense to obviously have them be incented and rewarded based on the longer term investment results of the organization.

So I just wanted to put that out there. What we've done on page three of the seven-page letter is just outline our recommendations, which would essentially see the LTIP added in equal weighting to the annual incentive. That is actually quite common in the marketplace when we look at other pension funds. They'll typically split the at-risk pay 50 percent being on the more call it short-term or paid on an annual basis incentive, and then the other 50 percent being tied to longer term performance as well. This would also generally keep the overall CIO pay levels competitive with other funds in the marketplace.

And then the only other thing I wanted to mention is these are definitely, you know, high numbers. And, you know, these are, you know, sizable amounts that could be earned. The key is "could" be learned, because the majority of the pay would be at risk through both the annual and the Long-Term Incentive Plan. And Brad mentioned this earlier, but I'll reiterate it. If you actually look and say, okay, under the current long-term incentive design, what can the CIO under, you know, GGA's recommendations, potentially make? And it's a sizable number. It's, you know, just over a million dollar payout.

But I think what's important to realize is two things, one, that $1 million payout will only be earned if they hit the 8.4 percent annualized rate of return, which is 1.4 percent above the seven percent required rate of return currently. And if you actually sort of compound that, over a five-year basis, because it is measured over a five-year period, it works out to $32 billion of added returns above your required rate of return.

And so when you start to look at it from that perspective, it's a relatively really small payout as a fraction of the gains that they would have generated. On the flip side, if they do not generate seven percent at all under the LTIP, then that number goes to zero. And so they are not earning anything if they don't meet your required seven percent rate of return on an annualized basis over the five years. And so it very much is a pay at-risk structure. And, you know, that large payout will only be earned if they generate that high absolute rate of return over a five-year basis.

So I know the numbers, you know, obviously look quite large, but one, they're market competitive, the structure would be market competitive, and it really mud -- really would tie pay with the long-term performance of the organization with that tie to that actuarial rate of return.

And so I think those are the -- sort of the key takeaways for the Committee. Happy to answer any questions that may have come up.

CHAIRPERSON FECKNER: Thank you.

Ms. Yee.

BOARD MEMBER YEE: Thank you, Mr. Chairman. I'm happy this issue is before us. I think it makes complete sense to adopt an LTIP for the CIO. I do believe that it will be an enhancement with respect to the compensation package, as we're undertaking a recruitment.

I did have a question about one of the other recommendations though in your -- in your materials. And it had to do with reviewing the Investment Office and executive team compensation data. And I didn't know whether that was triggered by the implementation of the CIO LTIP or whether that's a practice that should be done periodically. But those were just adopted, I think, in 2019, so it just seems like it's early to do that. Can you comment on that?

MR. LANDERS: Yes. Great, great comment there, Betty. Typically, as part of a best practice, you should be doing a market review of pay levels every two to three years. It's part of a -- sort of a best practice. And so you mentioned 2019. This is something that I think should be considered as part of the 2021-22 workplan, because it would be two or three years since that last review. And what we would suggest is we potentially look at, you know, around this time next year coming back with the results of a that review and letting you know how you stack up in the marketplace, if there are any adjustments. But it would be best practice to, every two to three years, conduct such a review as well.

And, you know, it's helpful once a new CIO is recruited in, you know, it would be -- it would be interesting to get their views, where we can, and obviously we want to make sure we align with any required rules from a -- you know, from a disclosure and a sunshine law perspective.

BOARD MEMBER YEE: Um-hmm.

MR. LANDERS: But it -- you know, it's helpful to get the views of both again staff and the Board as we embark on these types of pay reviews.

BOARD MEMBER YEE: Okay. All right. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: ThanK you, Mr. Chair. I want to make sure I understand what it is that's being proposed here. So as I understand it when it comes to the LTIP, if, over the course of five years, the rate of return is seven percent or less, then there will be zero dollars earned in LTIP for those five years, is that correct?

MR. LANDERS: That -- yes, that is our understanding from reading your plan design, that, yes, it will only -- it will only trigger any -- if you -- I think -- and Doug might be able to clarify for us. I think there might be a payment trigger right at seven percent, but definitely below seven, there would be nothing earned under the LTIP.

CHIEF OPERATING OFFICER HOFFNER: This is Doug Hoffner, CalPERS team member. Definitely nothing below seven percent. That was the minimum. There are no thresholds below that. So it's basically completely gets a zero. And when the policy was adopted previously, it had cap of 8.4 percent as well, so that excess proceeds above that would also be capped within those positions that are covered. So essentially, the policy does say though, you know, it's triggered to your actual rate of return. So if that number was going to be changed upwards or downwards over time, then this metric would also basically align to that new number, whatever that is, right? And that's in the existing policy that was adopted a couple years ago.

COMMITTEE MEMBER MIDDLETON: So I think I need --

MR. LANDERS: And that would be common to do that.

COMMITTEE MEMBER MIDDLETON: Okay. And I can appreciate that, but I'd like to know what the number is that would be earned at seven percent rate of return.

And on the high end, if, over the course of the five years, we achieve an 8.4 rate of return, then - and I'm going to round this off - roughly $1.7 million in incentive would be earned annually, or approximately $8.5 millon in LTIP over the course of those five years, is that correct?

MR. LANDERS: So each LTIP would be independently sort of verified over the -- over the five years. So essentially at the end of each five-year period, they would be able to earn, under our recommendations -- and again, this is on the higher end, so it would be 150 percent of 700,000, so call it -- call it -- what was that, that's about 1.1 million I would say. So that would be earned at the end of every -- each five-year period. So hypothetically over a five-year -- this would actually be really over a nine-year period, because they would, you know, start participating and have to wait five years. Over a nine-year period, they would receive, if they maxed out 8.4 percent, they would get, I guess it would be, about $5.5 million. And they would have -- I can't -- I haven't done the math over nine years, but that would generate -- you know, it would be over $32 billion of added value, if they maxed out every year over the -- over that sort of five-year period.

COMMITTEE MEMBER MIDDLETON: All right.

Between seven and 8.4, between essentially zero and $1.7 million per year, is it a progressive rate of increase?

MR. LANDERS: Yes. So essentially, it would be interpolated, so you would look at -- let's just say they hit mid -- between, you know, 7.7 percent let's say --

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. LANDERS: -- that would -- that would lead to an interpolated payout. So they would earn incrementally more, up to that 8.4, and they would be capped at the 150 percent of salary. And then they would earn no more than that 1.1 million. So if you got nine percent, they wouldn't earn anything more than the 1.1 million. So, yes, it would be interpolated for performance in between.

COMMITTEE MEMBER MIDDLETON: And the money that would be paid under the LTIP, when would the first check -- assuming someone had been there for five years, when would that first payment be made?

MR. LANDERS: So if we're talking right now, let's say you put it in place -- say the CIO started July 1st, 2021 --

COMMITTEE MEMBER MIDDLETON: Right.

MR. LANDERS: -- the first payout would be -- wouldn't be made until -- realistically, you'd have to finalize your results, wouldn't be made till probably early fall, because it would probably be about the same time you pay your annual incentives currently. So the first payment wouldn't be made till 2026, if I got my timing right.

COMMITTEE MEMBER MIDDLETON: Twenty-six?

MR. LANDERS: Yeah, because it would -- you would wait the five years. And then starting in every year thereafter, assuming that person --

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. LANDERS: -- remains employer, they would start to get a pay every year, because that rolling five year period would start to role in. But, yeah, starting out, they would just wait the five years.

COMMITTEE MEMBER MIDDLETON: So the LTIP has a five-year waiting period before it begins to be paid.

MR. LANDERS: Yes.

COMMITTEE MEMBER MIDDLETON: All right. Well, those are -- those are my questions. I want to turn it over to someone else. I can just simply say I echo Ms. Yee that the CIO should be part of this program. And if we have a CIO in place for nine years, we will all be celebrating.

(Laughter.)

CHAIRPERSON FECKNER: Absolutely. Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Feckner.

I just had a couple of questions, if you help me through this a little bit. So I'm looking at the base salary range to start with. And if we go midpoint, based on your recommendation, 424,5 to 707,5, and then it said midpoint 566, and then with the LTIP -- and again, I will echo Ms. Middleton and Ms. Yee, I agree that the CIO should be participating in the LTIP for sure. So that's just the base salary. So midpoint -- so say we started the person midpoint 566,5, is that basically it?

MR. LANDERS: Yeah. And I admit there actually is a slight typo. HR let me know. It's 566,000 total. So it would be 566 would be the midpoint. But yeah, it would be 566. That would be the midpoint salary. That aligns -- we actually looked at the salary and there's -- you know, currently, for the CIO that's a competitive range of salary to offer. Obviously, depending on the experience that person brings you might position them experience that person brings, you might position them lower or higher in that range, but that range is market competitive.

COMMITTEE MEMBER TAYLOR: Okay. And then what we're hoping on is they get the annual incentive, but then what they're hoping for.

MR. LANDERS: Yes.

COMMITTEE MEMBER TAYLOR: Okay. And what we're hoping on is that they get the annual incentive, but then what they're hoping for to really make their pay here is from one 1.7 max -- I'm sorry, and you're moving that to 2.8 max --

MR. LANDERS: Yes.

COMMITTEE MEMBER TAYLOR: -- after a five-year period and then a rolling amount?

MR. LANDERS: Yeah, it would be rolling ever year thereafter, yeah.

COMMITTEE MEMBER TAYLOR: Okay. And that's about 75 -- 75th percentile. And that is something I agreed with your previous educational module basically saying that, to me, if you're the biggest fund in the country, we should be looking at a higher range.

But then I also had another question. I -- the base salary seems awfully low for a CIO. And I don't know what the solution is. I don't know if I have agreement with the Board, but I don't -- even if it means pulling them out of the CIO out of civil service, would it behoove us to -- for attraction of a CIO to make that base salary higher and then maybe make the LTIP lower -- a little bit lower, not a lot, but a little bit lower for the attraction to get someone here. And it's just an idea.

MR. KELLY: There's different ways you can -- you can look at that. You could say do you want to make the base higher? But that's a give-me. That's a given, right? And so if they come in and they don't perform, you're going to pay that higher base salary for them coming in as an non-performer. It's -- as Peter mentioned earlier on in the beginning of our education session, that total direct compensation, that full package is what you want to -- you want to put in front of them. This is your total opportunity.

And a huge portion of this is based on performance. And long-term performance is the game that we're playing right now. And so that's what we want to -- we want to incent. And if you can bring that long-term performance to us and stay beyond five years, you are going to be rewarded. And that's the message you want in place. By strictly -- and remember, if you increase that base salary, it gets amplified by the incentives. And so it's really about that total direct mark that you want to focus on and make sure that the incentives are in place to really reward performance.

If someone comes in and says I don't want to perform, I want a higher base salary, I think that's a red flag.

COMMITTEE MEMBER TAYLOR: Yeah, I'm -- that's not necessarily --

MR. KELLY: True.

COMMITTEE MEMBER TAYLOR: I get that. I get that. I'm not saying that's not necessarily true. I'm saying is that one of the things that have hampered us as we move forward? We have a whole lot of issues at CalPERS, right? We have all the press that we get. You know, so this person isn't just performing as a Chief Investment Officer. He's -- he or she is going to be the person that's going to go on Fox News, answer to the press, I mean, answer to the stakeholders.

So I think we're not -- I don't think we're paying the person high enough to even come in. And that's been -- what I'm understanding, that's been kind of the problem for us recruiting.

MR. LANDERS: Well --

COMMITTEE MEMBER TAYLOR: So -- and maybe we change --

MR. LANDERS: -- the only thing --

COMMITTEE MEMBER TAYLOR: -- the LTIP program from 1 -- 0 to 150 to 0 to -- or 100 to 125 or, you know what I mean, and then bring them in at a higher amount.

MR. LANDERS: So what I can say --

COMMITTEE MEMBER TAYLOR: Because the whole thing -- oh, go ahead. I'm sorry, Peter.

MR. LANDERS: Sorry, I'm interrupting you. But I think it's a great philosophical thought process. Do we want to take our overall pay -- if we say -- let's just say we say, you know, three million is the -- is the pool we want to work with. How do we want to split up the pie?

COMMITTEE MEMBER TAYLOR: Right.

MR. LANDERS: And what we're saying is, you know, the -- the way that we're suggesting to split up the pie with the 0 to 150 on the annual, 0 to 150 on the LTIP with that range of salary is pretty market competitive. Yes, there are some, you know, one-off data points. I think Chris Ailman -- now, he's at the higher end of the CalSTRS pay range. I think he does get, you know, closer to that 700,000 salary, if I'm not mistaken. I don't have it right in front of me right now. So he would definitely be getting a higher salary. Now, he's obviously been there for many, many years. He's, you know, a well respected CIO in the pension fund community.

And so, you know, that 566, while that's the midpoint, you would have some flexibility to go a little bit higher, on -- you know, closer to that 700,000 range. And I think one of the biggest points and -- you know, again, this is just from the outside looking in. Obviously, we weren't involved in any of the CIO recruitment efforts the last, you know, six, seven months. But we would -- we would guess that the lack of an answer on whether someone would be able to participate in the LTIP was probably a concern that would have come up during the interviews and would have, you know, hurt potentially in getting someone to sign on the dotted line.

And so we feel that by giving them some certainty, assuming the Committee were to agree and the Board were to approve this, you know, having that certainty and giving them that opportunity will hopefully address a lot of those concerns. But, you know, while we would suggest this is the right approach and you could definitely say, well, let's may a higher salary and lower incentive, but to Brad's point then, you know, you're putting more of the pay -- or less of the pay at risk. And is that something the Board and the Committee is comfortable with?

That's something philosophically to answer, but we feel this recommendation that we've brought forward is competitive and would allow you to recruit competitively with that certainty on the LTIP piece.

COMMITTEE MEMBER TAYLOR: So -- and I understand that's -- so one of the things, as the largest fund in the country, we're not recruiting from other pension funds or we shouldn't be recruiting from other pension funds, right, because most of the pension funds in the country manage a hundred billion or less, except for STRS. So we're looking at recruiting maybe from a foundation, or private sector even. So when your starting salary is under a million dollars, that becomes a concern for the person that we're looking for, right? If we lower our standards and look for somebody that's only managing $30 billion, then, yeah I, agree with this. Okay.

But we're also looking -- and again, we're also looking for someone who can handle negative press for whatever it is, whether it's coming from the federal government, which is some of the things that our previous CIO had to -- had to deal with, or whether it's coming from here in California, whatever, that is, but it -- we garner -- because of our size, we garner negative press unfortunately. That person has to be able to handle that.

They also have to handle stakeholders and going on the news. So I'm just -- I'm concerned that we're -- I'm not saying my idea is the best idea. I'm just -- I'm just concerned that we're -- maybe we should be looking at initially the new CIO comes in higher, right, and then -- because they're coming in under the previous CIO's plan. And then as they perform, maybe it switches around a little bit, I don't know. But I just think it -- it's something we need to think about as we're moving forward to recruit someone.

MR. KELLY: Those are excellent points. And, yes, you are a major player in the global market, in terms of public pension. And I just -- I just posted an article on my LinkedIn account on Friday saying, you know, welcome to the fishbowl, where public pensions are being scrutinized at the highest level ever. Here in Canada, CPPIB, our largest pension fund, the CEO was quickly terminated once we found out that he flew to the Middle East to get a vaccine. And so these are the things that executives within all these major public funds are going to have to deal with.

And to your point, being competitive, you definitely -- the -- and if you look at the matrix that we provided, the range is what's market competitive, and anywhere within that base salary range is fair. And so we would say, you know, if you're bringing in someone who is really seasoned or really a high, high performer that you desperately want, you have the discretion to go higher within that band. We'd say anything above that 707 would be out of market right now, based on our current data. But you have the discretion to negotiate within. Wherever you feel that candidate fits within that band, you have the discretion. We're just saying, at that midpoint, at we would call median, that would be the target amount that we would recommend, but you can work within that envelope. It's -- and then --

COMMITTEE MEMBER TAYLOR: Brad, is that market other public pensions in the United States?

MR. KELLY: It's --

MR. LANDERS: So great, great question. The market data that we're showing is a mixture. You know, it's not perfect, because we didn't have, you know, the mandate to, you know, work with say a McLagan or something to pull your exact peer group. But it is a mixture of some of the leading U.S. funds. We've included some of the leading Canadian funds in that. There's even a few private sector comparables peppered into that market database on our database. And so that's why we're, you know, pretty confident in the -- in the numbers that we're showing.

And we know that obviously if we look purely at a private sector comparison, you know, we'd obviously show some larger numbers. But we know that, you know, you have a unique peer group that, you know, you're looking at other funds, but you're also looking some of the more leading Canadian international funds. You do have some private sector comparables in there. And so, you know, that's where we came at it to say, you know, that's 2.8. We were a little bit conservative. If you look at the range in the market data, you could go as high as that 3 to 3.2 million in our estimation of where that 75th percentile is. So there is some room, if you wanted to, to move that -- that upwards.

But we also wanted to be cognizant of some of -- you know, as you had mentioned, the politics involved in making sure that it's fair and reasonable and doesn't lead to too many, you know, headline headaches and things like that.

COMMITTEE MEMBER TAYLOR: Okay. I appreciate it, guys. Thank you. It's just something I was concerned about.

MR. KELLY: The other thing that we can add with regard to the attraction -- recruitment and attraction of a strong CIO. Any of you who have heard us speak publicly about attracting talent within your pension fund, would have heard us talk about the value proposition that a lot of pensions can bring. If you're looking at the private sector, if you're a high level executive with any of these private funds, you have two jobs. One is bringing more fund -- more funding in, so, you know, going out there and trying to bring investors into your fund, and the other is finding the opportunities.

And if you talk to any investment professional, they'll tell you that of the two jobs, what they love most is finding opportunities, making the deals, getting the returns. That's what they love. And working at a public pension is great, because you're not -- you don't have to go out there and constantly market for more investors. You actually have a steady stream of money coming in. So you're doing that great thing that you love, which is deals. Your job is to get the best deals, the best return, and get that capital out there, and get it invested on behalf of these members. And that's the exciting part.

And so if you take the other part of the equation out, to some investment professionals they would say you know what, I'm willing to take a haircut on the compensation because I don't need to deal with that other side of the fence. And again, that's about formulating your value proposition to be strategic and getting the right people in who want to be, you know, the real performers, finding those opportunities, and a long term investor for your fund.

COMMITTEE MEMBER TAYLOR: Are you suggesting that we split the position?

MR. KELLY: No. No. I'm just saying if you were to re -- if you were to recruit someone in the private sector -- like, if you were to say to someone on BlackRock, a senior executive at BlackRock, they're going to have two jobs. One is to go out to like your fund and try and get you to invest in them, and second is to find opportunities. And really going out there and, you know, as -- you know, as a carpetbagger and trying to get people to invest in your fund, they don't love that part of their job. What they really love is the deals. And working for a public pension is really about finding deals and that's what they love.

And if you can package that in a very valuable way with some competitive compensation and a good quality of life, you have a really strong value proposition to bring people in.

COMMITTEE MEMBER TAYLOR: Okay. Because it sounded like you didn't even take into account the other part of the position, so that's where I was confused.

MR. KELLY: In terms of the public pressure and the spokesperson? Well, that's -- anyone coming into any public sector public pension, it's the deal, right? It's your --

COMMITTEE MEMBER TAYLOR: Not like ours. Not like ours. You know that. We're always in the news. I don't hear about Pennsylvania hardly ever. Okay.

MR. KELLY: Well, actually, I just read the article about Pennsylvania.

COMMITTEE MEMBER TAYLOR: Right. But like I said --

MR. KELLY: (Inaudible) with them right now.

(Laughter.)

COMMITTEE MEMBER TAYLOR: All right. All right. Thank you, you guys.

CHAIRPERSON FECKNER: All right. I see no other requests to speak. Thank you guys for your presentation. I really appreciate you breaking it down into the category that we'd asked you to breakdown. So at this point, it's an action item. What's the pleasure of the Committee?

COMMITTEE MEMBER BROWN: Move approval.

CHAIRPERSON FECKNER: Is there a second?

Ms. Middleton, I think you're seconding.

COMMITTEE MEMBER TAYLOR: I'll second.

CHAIRPERSON FECKNER: You're muted.

COMMITTEE MEMBER MIDDLETON: I did second.

CHAIRPERSON FECKNER: Thank you. So it's been moved by Ms. Brown, seconded by Ms. Middleton.

Seeing no discussion on the motion.

Ms. Hopper, please.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

CHAIRPERSON FECKNER: You're muted.

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

CHAIRPERSON FECKNER: Excused.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have a motion being made by Margaret Brown, seconded by Lisa Middleton, I have five ayes, one excused by Stacie Olivares for Agenda Item 7a Long-Term Incentive Program for the Chief Investment Officer.

CHAIRPERSON FECKNER: Very good. Thank you.

That takes us to Agenda Item 7b, Ms. Tucker.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Chair and good afternoon again. Michelle Tucker, CalPERS team member. Agenda Item 7b is an action item seeking your approval of incentive metrics for fiscal year 2021 through 2022. Incentive metrics were originally established and approved for incentive plans in fiscal year 2016-17. As part of the implementation and ongoing inclusion of the shared organizational goals, an annual review is required.

Today, you'll hear a presentation from GGA on the recommendation for fiscal year 2021 incentive metrics. Upon Committee approval, some combination of these metrics will be included in fiscal year 2021 incentive plans for invest management, executive, and certain senior leadership positions. So with that, I will turn it back to GGA again for their presentation.

MR. LANDERS: Thank you, Michelle -- Ms. Tucker. Similar to the previous letter, I'll probably just focus the Committee on the six recommendations that are page six. There's a bunch of detail in the back end that speaks to, you know, breakdowns in the market and, you know, what our detailed recommendations are. And I might go to one of those pages at the end, but there's basically six key areas of recommendations for consideration by this committee. We had that initial discussion that was through the education session, where we talked about the asset class investment performance. And I'll reiterate that it is very typical in the market for those asset class professionals to have a weighting on the quantitative side of their incentive tied to asset class investment performance against the benchmark typically, sometimes absolute return.

So that was something that stuck out to us as being something that was atypical and more unique to CalPERS. We definitely understood through the conversations the concerns about silos and creating silos historically. And I think part of that is the fact that we definitely want to ensure that there is still a meaningful weighting on total fund performance within the annual incentive plan. There's obviously the 100 percent weighting on total fund performance for anyone who participates in the long-term incentive.

And so, you know, based on our understanding, we would suggest and recommend that the Committee consider placing a meaningful weighting on asset class performance for those specific asset class professionals. So that's one and that's probably one of our key recommendations.

The other big material item that we saw was the 60/40 weighting on investment professionals. Typically, in the marketplace, we typically see 70 to 75 percent weighting put on quantitative investment performance and then 25 to 30 percent placed on the qualitative portion.

Now, some of that qualitative might be because you were considering asset class performance as part of, you know, that 40 percent qualitative weighting. But assuming that there is some weighting placed on asset class performance on the quantitative side of the formula, we would suggest increasing the overall weighting on quantitative performance 4 -- to 70 to 75 percent total of the hundred for Investment staff and the remaining amount being on those more qualitative pieces.

The other considerations that we had was for the Division Chiefs that fall under 20098 compensation program, that their quantitative performance be set at 50 percent, similar to the COO, CFO, and Chief Compliance Officer, because we tend to see pretty -- like very aligned and similar weightings between, you know, those different roles, who are playing more of a non-investment related role. And you wouldn't want it to have, you know, different weightings between those different roles, based on our experience in the marketplace.

The fourth one being for non-investment executives trying to place some weighting and we're seeing no higher than 15 percent. So probably 10 to 15 percent weighting on total fund performance similar to the CEO. We find that again that gets everyone working in one direction and everyone is then, you know, similarly treated from that perspective. And then very quickly as well, based on just what we saw historically in terms of some of the historical performance in customer service, stakeholder engagement, and that just make sure -- and, you know, potentially, maybe it's not this year, but maybe it's part of the 2021-2022 workplan, considering reviewing the performance expectations and the metrics used in those areas to determine whether the committee and the Board are still comfortable with those performance expectations, and whether any adjustments are required.

And the reason we say that is when we look at customer service and stakeholder engagement over the last three or four years, we've tended to see payouts pretty much at max year, over year, over year. And, you know, it goes back to that 80, 60, 20 rule, is that something upon further review that the Committee wants to tweak and make some further changes to or are you comfortable saying, you know what, we're just really performing at that high of a level that, you know, these people deserve to be paid at that -- at that higher level.

And then lastly, the last piece being on the operational effectiveness, considering whether you want to starting including Board and third-party administrator -- administrator costs in that calculation on a go-forward basis. That is something to consider as well. All we would suggest is making sure that you set performance expectations and the historical look-backs, you know, so that they're apples to apples, so that, you know, you can make sure that you're setting a expectation for costs that is realistic for staff to be able to achieve.

And I'll just point you then very quickly before questions just to page -- it would be the last page, page 12 of 12, where the breakdown. And in this table, you'll see the current breakdown on the top row for each of the positions. And then where we've suggested to make changes, you'll see green shaded cells in increases. So, for example, for the CIO position, right now total fund may be at 50 percent. We're suggesting it could make up 65 percent of the hundred percent weighting. And then those that you see highlighted in red or in pink, those are decreases. So if you look again at the CIO row, currently leadership and business objectives are 20 percent each, we would suggest bringing those down to 12 and a half and 12 and a half percent. So that's how would you would read that table.

And so those are the more detailed, you know, allocations that we at GGA are suggesting that would be market competitive and align with, you know, more typical formulas that we see in the marketplace.

So with that, I'll open it up to any questions that Committee members might have.

CHAIRPERSON FECKNER: Thank you.

Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

I want to take a look at page 11 of 12, where you've compared --

MR. LANDERS: Okay.

COMMITTEE MEMBER BROWN: -- CalPERS to CalSTRS. And what I really want to just focus on are the areas where I see huge differences. Going from the bottom up. Sorry, it's just the way I work. So the Chief Operating Officer under CalSTRS has 85 percent and we currently have 50. So are you -- you -- I think you just said you were recommending that we move it to 15 and 85, is that -- is that correct on page 12?

MR. LANDERS: No. So this is actually a point for clarification. So what you have done at CalPERS is really quantified specific targets as it relates to the operational effectiveness, the CEM Benchmarking results. Customer service you set specific guidelines. Stakeholder engagement you set quantifiable measures. And we actually like that and we actually prefer that approach, when we compare it to a CalSTRS where they leave a lot more to the discretion and more subjective. And we've been, you know, prodding them to try and increase that level of quantitative performance over time. It's still a work-in-progress.

So we actually like the fact that you have more quantitative ways of measuring operational effectiveness, customer service, stakeholder engagement. So we wouldn't want to say, you know, take that away and make it more subjective. We actually like that. What we are suggesting though is the 15 percent be tied to the quantifiable total fund results for certain positions. So I wanted to clarify that we actually like the fact that you've gone about trying to quantify. You know, a lot of those areas that a lot of other funds might look at them more subjectively, we like that you've tried to quantify them and would suggest that you try and keep that on a go-forward basis and make it less subjective, rather than more subjective, in our -- in our view.

COMMITTEE MEMBER BROWN: Thank. So let me ask another question. Our General Counsel gets an incentive, but CalSTRS does not. How common is that, the General Counsel would get an incentive?

MR. LANDERS: In our -- in our view, the General Counsel typically is tied to some sort of incentive. You'll see that comparative to say investment professionals and that, there's a very small weighting that's placed on the total fund. And that's -- it more applies to roles like General Counsel, roles like Chief Compliance Officer, even Chief Financial Officers, things like that, where their role -- you don't necessarily want to have too much of their incentive tied to investment results, because then are they sort of encouraged to potentially look the other way when, you know, their might be something that affects their incentive.

So when we look at pension funds when we also look at, you know, broader market practices and financial services, you're starting to see these types of roles, such as General Counsel and those types of more functional roles, risk officers, things like that, they tend to have one -- if there is any weighting on investment performance, it's total fund, so it's relating to the fund as a whole, not any specific asset class that that person might be supporting. And two, it's kept a lot more. That's one area where it is kept a little bit more qualitative, because the aspect of the role is it's tough to sort of quantify exactly what the General Counsel does. So it is more of a subjective view of, you know, have they responded quickly to our requests, have they kept us out of trouble, that type of thing.

So we would generally be supportive of keeping the General Counsel eligible for an incentive. I know CalSTRS has their own sort of opinions and views on why they, you know, keep the General Counsel without an LTIP. One thing I will note is if, for some reason, this Committee decided, you know, one day we don't want the

General Counsel to participate in the incentive, what CalSTRS has done is they have significantly increased the salary of that individual. So the fixed costs for that role have increased correspondingly to not being able to -- or not -- choosing not to offer an incentive.

So if that was something this Committee decided to do moving forward, we would suggest you would have to make a sizable increase in the salary for that role to compensate for that lack of incentive.

COMMITTEE MEMBER BROWN: All right. Thank you. That's all my questions for now.

CHAIRPERSON FECKNER: Thank you.

I'd like to ask Doug Hoffner to give us some of the history on our use of metrics. Doug, please.

CHIEF OPERATING OFFICER HOFFNER: Thanks, Rob.

I just wanted to provide a little context, because I think the way the item is written, it says there's four recommendations and then Items 4 and 5 are sort of identified as to be potentially reviewed. So I don't know the specific recommendation there. I would want to say we have gone back and looked since the item was written by GGA to look at some of the historical references.

I can identify that on the operational measure, we've never hit the maximum performance goal that's been identified by GGA in terms of the 80 -- the 50, 80, 20 rule, and those kinds of things, so -- and then just to remind the Committee with a little bit of history. Back in the middle of 2018 for that 18-19 fiscal year, both in June and August, the Committee basically did a similar review of these metrics and concluded where they are today. So I think to GGA's point, you know, we do look at these annually through the third-party Board's investment consultants, but essentially that was all done. I do know the makeup of the Committee at that time was substantially different. I believe only Ramon Rubalcava was the member that was still on the Committee at that time, including members of the Board were there as well.

There was -- we have been going through this evaluation. So I just want to clear, I mean -- and maybe GGA can opine on this, but there are sort of two identified for review. But since they don't specifically identify a recommendation I want to make it clear as we -- as we move to a -- whatever outcome is decided by the Committee and the Board, I think there's sort of four recommendations with two items for sort of future consideration. And I just wanted to make sure we're clear on that.

And then identify, we do have some positions, which I know are identified as sort of division chiefs, and we typically use that title with our career executive assignment team members that are outside of this policy. So I think we'll want to look for some clarity in terms of the use of that phrase. It's probably folks that are in the Government Code 2098 program that we are talking about today. Some of it may exist outside of the Investment Office and want to make sure that any metrics or changes are identified tied to those positions, so we're clear about what the outcomes are.

I'm happy to answer any questions.

MR. LANDERS: And just to clarify to Doug, that is correct. So the first four, one through four, recommendations are more actionable items. And five and six were more for review -- future review purposes. So I wanted to clarify that.

And I think Doug, it's great to hear that, you know, there has been some sort of ongoing every couple years looking and making sure that you're still comfortable with those performance expectations. That's great to hear. And I think that's something that should be continuously happy to help in any of those reviews in the future. And then, yes, what you'll note on page 12 of 12 is we have, just for those 20098 roles, suggested changes. Any of the roles that fall under the CEA compensation framework as well as Chief Health Director and a couple of those other CEO, CSS, and the DEO roles, we have recommended no change for now, because we understand there would have to be some further discussions before any of those more material changes could be made.

CHAIRPERSON FECKNER: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Okay. Thank you, Mr. Chair.

I -- we're being asked, I think, to do -- make quite a few decisions here today. And both to peel back from a decision that was made some years ago to go to total fund for our Investment staff, and to incorporate some asset class designations in there to move to 75 percent for investment, both of those are the kinds of decisions that I can get my head around, in the same fashion that -- with the CIO.

But for the other non-investment positions, I'm struggling to be table to make decisions today. And so my question is can we have much more conversation and defer to the June meeting before jumping into questions regarding what the CEO, the General Counsel, the Chief Financial Officer, Chief Compliance Officer, Chief Operating Officer. I have some real struggles with some of those positions from a checks and balances standpoint being a part of our incentive program. So I guess long-winded way of saying what must we make a decision on today?

CHAIRPERSON FECKNER: Doug, any offers?

CHIEF OPERATING OFFICER HOFFNER: Yeah. Thank you, Mr. Chair. So essentially the metrics that exist today are already embedded in the program. We do have a meeting scheduled in June and that's a review of both of the CEO's annual performance plan going into the next fiscal year, so there is time for that. But the metrics exist as they are and have been used by the organization for the last five years. So slight modifications two and a half years ago. So from that perspective, I don't think anything has to be done.

I think if the Committee is looking for further information and perspective, then, you know, I think you kind of get that understanding today or in a future conversations would be helpful to get more specificity. I wouldn't want to speak or I can't speak to some of the other items as they are identified as a position that I'm currently in, so I will not discuss that. But if there are things that the Committee, Ms. Middleton or others, are looking for that we can -- you know, that conversation can be had with GGA, so they know what to bring back or ask further questions of staff that we can be of assistance providing historical information in terms of payouts and those kinds of things or whatever, we can do that. That would give us time between now and June to put that together.

But essentially, the metrics already exist. They are embedded in the current policy. And so unless you want to change them, I think no other action is required. But this is the feedback from your independent executive comp consultants.

CHAIRPERSON FECKNER: Doug, I think for the -- whatever we're going to put till June, I think part of the discussion we need to have our Investment consultants on the agenda to give us their perspective and the impact that it has on the Investment Office as well, so we have a total package picture.

CHIEF OPERATING OFFICER HOFFNER: Yeah. That was kind of one my items, Mr. Chair, that I had essentially related to, I think, Mr. Jones comment earlier related to benchmarks and some of those other things that really have sort of the right hand, left hand tied together here in terms of discussions about metrics, and benchmarks, and those kinds of things. So we would be happy to work with them and GGA to bring back an item that sort of addresses those questions.

CHAIRPERSON FECKNER: Very good. Thank you.

Anything else, Ms. Middleton?

COMMITTEE MEMBER MIDDLETON: No, thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr. Feckner. I'm a little confused. So the quantitative weighing is below market. So you want that increased to 75 percent. What is included in quantitative weighing?

MR. LANDERS: So what is included is your total fund performance, of course. For the investment positions, we are seeing asset class performance tied to, you know, benchmarks for that asset class. The operational effectiveness measure, it is currently a measurement of costs included in that. The CEM benchmarking, where you compare your value-add results as well as your cost -- investment costs to CEM Benchmarking survey results is included in that. There's a customer service metric that has specific percentage satisfaction rates, which is also quantify -- quantitative. And then stakeholder engagement, there's additional -- some stakeholder engagement again quantified figures that are included in that piece.

On the qualitative side, we have them at a high level. They're considered leadership and business objectives. And our understanding is that would include currently some considerations for Investment staff on asset class performance. It would also include our understanding is those ESG considerations they you had talked about earlier, I believe, Theresa, as well as other sort of leadership competencies and things that individuals are exemplifying.

But those are, again, evaluated subjectively and are more qualitative. There's no specific asset, you know, you must get this percentage or something like that. It is more of a qualitative rating based system.

COMMITTEE MEMBER TAYLOR: And asset class is included in the qualitative?

MR. LANDERS: Currently, according to -- and I'm going off of what we've read and what Doug has clarified during this meeting, it is considered for investment professionals as part of, I guess, the current, probably under business objectives would be my guess, but it's considered more subjectively as opposed to having hard, you know, value-add targets or absolute return targets that must be hit to earn a certain pay level.

COMMITTEE MEMBER TAYLOR: Okay. And I do know, as a State employee, I sure want to make sure that our leaders are good leaders. So the qualitative stuff I hesitate to lower. I need someone -- I think that we should have, including with our Chief Investment Officer, someone who also knows how to be a good leader and to create a good team. So I'm not -- I'm not entirely sold on changing these.

And then the other question I had, you had all division chiefs, but you said it was -- then you said it was the 90028 positions, so I'm a little confused, because I thought division chiefs that was a set salary. Does it depend on what division they're in?

CHIEF OPERATING OFFICER HOFFNER: Maybe I --

MR. LANDERS: Yeah, so I -- yeah, maybe Doug can clarify.

CHIEF OPERATING OFFICER HOFFNER: Let me -- let me maybe answer that. So we do have -- Ms. Taylor, we have division chiefs that are incentive eligible, but they're through the Chief -- the -- a different plan than what's in this policy. It's not the Government code 20098. It's at the 0 to 15 percent opportunity. And so again, it's not reflected. So I think there's feedback from GGA related to that as well, but it's not part of this policy. It's basically a separate program that we have in the organization. So when I here the word "division chief", it has a very specific connotation at CalPERS and the rest tend to have investment title classifications for this program.

COMMITTEE MEMBER TAYLOR: And that's the -- is that the same with the CEA-related roles?

CHIEF OPERATING OFFICER HOFFNER: Correct. So the division chiefs are essentially the career executive assignment, CEAs, is what you're talking about and they do have a 0 to 15 percent incentive opportunity.

COMMITTEE MEMBER TAYLOR: Okay. I just want to make sure that we're not -- we're not rewarding bad leaders, you know. So I think that was one of the reasons we landed on this back in 2018, as I recall, because we actually ran into some issues with some of our management that showed poorly in management skill -- in leadership roles. Because being a manager to me is different than being a leader. But I just -- I'm not entirely sure that moving the quantitative higher and the qualitative lower is a good thing, in my view. That's what I was trying to clarify.

Thank you.

MR. KELLY: And we always advocate that you need to be looking at not just what gets achieved but how it gets achieved as well. And that's -- that stresses the importance of leadership competencies, and the work environment, and things like that.

But you can see the only positions that we're recommending a decrease on the qualitative side is the division chiefs just to add in an incremental element on the CEM benchmarking levels, the competitiveness level there, and total fund performance. Other than that, we're really just decreasing the overall qualitative elements of chief investment staff, like your -- who are really supposed to be driving the returns of your funds, but still have a certain weighting attributed towards their leadership as well.

MR. LANDERS: And maybe this could be an area where we do delineate a little bit, in the sense that right now we have all of the investment positions be the head of an asset class all the way down to, you know, the more junior incentive eligible roles with that. Potentially, maybe we delineate that moving forward, where the senior leaders have, you know, a little bit more on the leadership side and those more junior folks maybe have a little bit less weighting on the leadership side. Right now, we are just trying to stick with, you know, a pretty market standard weighting sort of between that, you know, quantitative and qualitative. But maybe there is a delineation between certain Investment staff running an asset class versus those that are just working at lower levels within an asset class. So that might be an area where we could delineate between the two and have slightly different weightings accordingly.

COMMITTEE MEMBER TAYLOR: Well, like Ms. Middleton said, I think -- I'm not prepared to make --

what are the four we're making a decision on? I keep going back to the beginning of the presentation to find out -- is it the page 6 of 12, the first four?

MR. LANDERS: Yes. Page 6 of 12, the first four in that -- on that page.

COMMITTEE MEMBER TAYLOR: And then I -- because you do include the -- some weighting on the total fund for non-investment executives. And I'm a little -- how -- why would -- why would we do that?

MR. LANDERS: So the idea behind that is not to make it a huge portion of the award, but essentially in that similar vein of making sure that, you know, we're all working towards team-like efforts, we're all working towards a common goal, seeing that the CEO already has a 15 percent weighting on total fund results, it would be quite common in the marketplace to see other roles like, you know, chief financial, chief compliance, that have a similar weighting. If we look at say a CalSTRS, there is, you know, a certain similar weighting for those roles. In fact, you know, sometimes they're a little lower. So potentially, you know, you could look at say maybe it's only a ten percent weighting and not a 15 percent weighting. But essentially, you want to have some tie-in on the total fund results for, you know, pretty of all investment-eligible staff where you can.

COMMITTEE MEMBER TAYLOR: So -- and CalSTRS isn't -- you yourself said isn't quite where you want them to be. So I'm not sure I want to compare myself to them. Can -- is there a way we could like come back to this, because I feel like there's just a ton of information here that we're considering changing, right? We're considering changing a whole lot of positions. And I just -- I don't -- I'm not sure that I feel comfortable with that right not. Does anybody -- Rob, is that something we could do? Can we --

CHAIRPERSON FECKNER: Well, I believe Mr. Hoffner addressed that earlier. But Doug is there any reason why we can't put off the vote until the June meeting?

CHIEF OPERATING OFFICER HOFFNER: No. I mean, essentially, the policy requires that the consultants basically provide an overview and some feedback related to the metrics. That's clearly happened today. I think the question is you definitely have more questions you want to ask of them. So I think from that standpoint, we already have metrics that are embedded today. If you don't make a decision or don't change anything, those metrics will still be in place. If you do make some changes, then we'll, on a going-forward basis in the fiscal year, starting July 1, put them into practice.

So it's really a matter of, you know, if you're comfortable, if you want to make change or not. And if not, then you can hold off or have the conversation in June when there's -- you've got more information in front of you and there's a little more clarity.

CHAIRPERSON FECKNER: Thank you.

And so I would recommend all Committee members -- actually, all Board members, since it's going to come back to the Board anyway, if you know you have questions now, let's submit those, so that we can get them to the consultant, so we can make sure that they have time to give us a really enhanced answer versus trying to do something off the cuff.

So put them in writing, send an email, copy the Chair, and send them to GGA, so that we are able to get these answers back for you to maybe streamline the next discussion a little bit. Again, just -- these are just for clarifying questions, not to get your answers now. To give them the questions and they'll answer the questions in open session in June.

Anything else on this topic?

All right. I have no other requests to speak, so we'll move on to -- first of all, thank you to GGA. Appreciate the long day and all the hard work that went into this. And clearly we still have quite a bit left to do. But it was a good start, good first meeting with you guys and appreciate it. So thank you.

Anything else, Ms. Tucker, from your point of view?

HUMAN RESOURCES DIVISION CHIEF TUCKER: No, sir, Mr. Chair.

CHAIRPERSON FECKNER: All right. That brings us to -- let me find my agenda now. I think it brings -- oh wait. We do have one request to speak from the public.

Mr. Fox.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair. We have one member speaking for himself, Mr. J.J. Jelincic.

MR. JELINCIC: Hello. This is my annual comment on the incentive metrics total fund performance. Simply following the Board's direction on asset allocation and you meet the benchmark, why get a bonus for doing your job? That's what your paycheck is for. Paying bonuses should only be for going beyond doing just your job. I would point out that the rank and file in the Investment Office only get bonuses for going beyond their normal job.

Let me use the Chief Investment Officer as an example. Midpoint salary is 566,500. Currently, the target bonus for the CIO is a hundred percent and total fund performance is 50 percent of that bonus. And if you simply do what you were told, you get 76 percent. So for the CIO, it is $215,000 under the current plan, 279 under the GGA proposal in bonus for simply doing your job. And apparently that creates too much accountability, because we've also said that staff gets to define the index that is used to measure the benchmark for public securities, because they get to define what's in there.

And just in case they decide either they can't or don't want to hold the benchmark weighting in the high return private assets, we give them the right to recalculate the benchmark to lower the point at which they get payout. The return -- and again, I will point out that the -- quite frankly, the returns and the need to be compared to a risk-adjusted benchmark.

So once again, I make my annual statement and thank you for your time.

CHAIRPERSON FECKNER: Thank you.

That brings us to Agenda Item 8a, summary of committee direction. Mr. Hoffner, anything there?

CHIEF OPERATING OFFICER HOFFNER: Let me see if I can get this straight. Return in June related to this metric item with additional details on the GGA recommendations. I think that encompasses the majority of the discussion today. I know there will be a conversation with GGA and our Legal Office to follow up on some previous conversations we've had based on the prior discussions. And I think encompassed in that will also be a review and discussion of the benchmarks with the investment consultants in addition to GGA related to hurdles and benchmarks. And I think that probably covers it.

CHAIRPERSON FECKNER: I think your right. And the investment consultants is because the Investment staff can't talk to us about those things --

CHIEF OPERATING OFFICER HOFFNER: Right.

CHAIRPERSON FECKNER: -- so we need the consultants to weigh in.

CHIEF OPERATING OFFICER HOFFNER: Yeah. I think they're kind of all intermixed there, but essentially I think it's probably a mega item that covers those items with additional feedback from independent consultants.

CHAIRPERSON FECKNER: Very good. Thank you.

Brings us to Item 8b, public comment. Mr. Fox, anyone in the public that wishes to speak to us?

STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chairman, there are no further public comments in the queue.

CHAIRPERSON FECKNER: Very good. Thank you, sir.

Ms. Middleton, what time would you like to start Risk?

You're muted.

COMMITTEE MEMBER MIDDLETON: Let's take a five-minute break -- or let's take an eight-minute break and we will start at 3:50.

CHAIRPERSON FECKNER: 3:50 starting risk. We are now adjourning the Performance and Compensation Committee. Thank you all for a great day.

See you shortly.

MR. LANDERS: Have a great day.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 3:43 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, Performance, Compensation & Talent Management Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of April, 2021.

James F. Peters

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