



# Performance, Compensation & Talent Management Committee

## Agenda Item 7a

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**April 19, 2021**

**Item Name:** Long-Term Incentive Program for the Chief Investment Officer Position

**Program:** Administration

**Item Type:** Action

### **Recommendation**

Approve or provide direction on the inclusion of the Long-Term Incentive Program in the Chief Investment Officer position compensation package.

### **Executive Summary**

The Board's Primary Executive and Investment Compensation Consultant, Global Governance Advisors, will present their recommendation to add a long-term incentive component to the total compensation package for the Chief Investment Officer (CIO) position, effective for fiscal year 2021-22. In September 2019, the Board adopted a Long-Term Incentive Program (LTIP) for all other investment management positions within the Investment Office, which became effective in fiscal year 2019-20. In November 2019, the Board adopted the LTIP for the Chief Executive Officer position, effective beginning in fiscal year 2020-21.

### **Strategic Plan**

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2017-22 Strategic Plan. The Executive and Investment Compensation Program provides a means for recruiting, retaining, and empowering highly skilled executive and investment management professionals to meet the Board's organizational priorities.

### **Background**

In May 2018, the Performance, Compensation and Talent Management Committee (Committee) affirmed the purpose statement and peer comparator groups used for establishing pay ranges for positions covered under the Board's Compensation Policy for Executive and Investment Management Positions (Policy). The Policy's purpose statement explains that "compensation policy... represents the strategic decision that pay must be high enough to encourage highly qualified individuals to accept and remain in positions, but not so high as to attract candidates solely for the compensation. Moreover, compensation systems must be carefully structured to both recognize labor market forces and reinforce maximum performance through placing a

substantial portion of total annual compensation at risk.” This statement is intended to set the direction of the compensation program and the tone for decisions around salary and incentive ranges for covered positions.

In June 2018, the Committee approved a revised compensation structure for the CIO position recruitment, with base salary positioned at the market’s 75<sup>th</sup> percentile and total cash compensation (annual base salary plus annual incentive) positioned between the 50<sup>th</sup> and 75<sup>th</sup> percentile of the market. These changes were intended to create a total compensation package aimed at attracting highly qualified candidates for this critical role. At that time, the LTIP had not yet been developed and presented for consideration by the Committee.

In February 2019, the Board adopted revised base pay and incentive ranges, including the addition of the LTIP, for all other investment management positions located in the Investment Office. Later, in June and September 2019, the Committee approved the implementation details for the LTIP, which became effective in fiscal year 2019-20.

In November 2019, the Board also approved inclusion of the LTIP in a revised compensation package for the Chief Executive Officer position. The Board’s compensation consultant at that time also recommended a review of the CIO position compensation package to include the LTIP and align incentive structures with adjacent positions covered by the Board’s Compensation Policy for Executive and Investment Management Positions.

In August of 2020, the CIO position became vacant. In subsequent months, the Board’s compensation consultant at the time presented a recommendation to add LTIP to the CIO’s compensation package, but a decision was made to wait until the Board could hear the opinion of their new compensation consultant, Global Governance Advisors.

## **Analysis**

Global Governance Advisors will present and discuss their recommendation (Attachment 1) to include the LTIP in the compensation package for the CIO position.

## **Budget and Fiscal Impacts**

If the Board approves the Consultant’s recommendation to maintain the current base salary and annual incentive ranges, and add the LTIP to the compensation structure for the CIO position, CalPERS costs will remain the same until after the first five-year rolling LTIP cycle for the CIO is completed in which board-approved absolute fund performance thresholds are met or exceeded. At that time, an LTIP payout would result in an associated increase in total incentive costs for this position. Anticipated future costs will be accounted for during budget planning for future fiscal years. LTIP payout will only occur when fund performance meets or exceeds the board-approved thresholds for absolute returns.

## **Benefits and Risks**

Approving the addition of the LTIP in the compensation package for the CIO position will align the compensation structure with all other investment management positions within the Investment Office, as well as with the Chief Executive Officer position. Alignment across these positions helps fulfill the “One Team, One Fund” approach, which supports the long-term sustainability of the fund.

## **Attachments**

Attachment 1 – Global Governance Advisors Recommendations for Chief Investment Officer Compensation

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