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# Opinion Letter

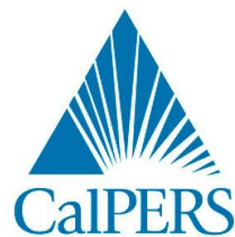
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## 2022-23 Chief Executive Officer Incentive Plan

Prepared for:

Performance, Compensation & Talent  
Management Committee

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This memo is in response to your request for Global Governance Advisors (“GGA”), in its role as CalPERS’ Board compensation consultant, to review and propose the CEO annual incentive plan measures and weights for the upcoming fiscal year 2022-2023.

## Overall Framework

As presented at the April 19<sup>th</sup> PCTM Committee meeting, GGA continues to agree with the core performance areas and plan weightings since the establishment of its new plan for fiscal year 2016-17. GGA also assessed the general competitive balance between Quantitative and Individual Key Business Objectives (previously referred to as Qualitative measures) for the CEO position and found that the current weightings are within GGA’s observed market norms.

As a result, GGA recommends that CalPERS continue to adhere to its historic performance measures and weightings for the upcoming 2022-23 fiscal year, with consideration of updated performance expectations for the Customer Service and Stakeholder Engagement metrics included within the CEO Incentive Plan.

## Proposed CEO Incentive Plan Measures and Weightings

### CHANGE PROPOSED

GGA proposes that CalPERS adhere to the same Measures and Weightings used in previous years and only implement a change in the term associated with non-quantitative objectives:

Plan Weight	Measure	Assessment Type
25%	Organizational Leadership Priorities	<del>(REPLACE) Qualitative Objectives</del> Individual Key Business Objectives
15%	Total Fund Performance	Quantitative Objectives
20%	Enterprise Operational Effectiveness	
10%	Investment Office CEM	
15%	Customer Service	
15%	Stakeholder Engagement	

Please Note: Aligned with the proposed Compensation Policy changes presented to the committee on April 19, GGA recommends CalPERS move away from using the term “Qualitative Objectives” primarily because it could lead to an assumption that these performance elements are purely subjective. Therefore, GGA recommends CalPERS refer to this category as “Individual Key Business Objectives” which for the CEO would apply to performance against the Organizational Leadership Priorities aligned with the System’s strategic plan and outlined in the section below.



## Organizational Leadership Priorities (25% Weighting)

### CHANGE PROPOSED

Established from Board expectations and insight, the CEO is to provide organizational leadership in support of the following priorities from July 1, 2022 to June 30, 2023:

- Board Support
- Open and Transparent Communication / Building Relationships
- Efficient and Effective Organization
- Supportive and Engaged Leadership
- Customer Satisfaction Driven Organization
- Team Member Engagement
- ~~(REMOVE)~~ Establishment of a new 5-year Strategic Plan (For consideration in Fiscal Year 2021-2022)

Scoring Information: A single rating will be given for the above Organizational Leadership Priorities measure, based on the following table. Payout ratio for intermediate results will be determined by interpolation.

#### Past 2021-22 Metrics

Score	Payout Ratio
Far Exceeds High Expectations	1.50 (150%)
Meets High Expectations	1.0 (100%)
Does Not Meet High Expectations	0 (0%)



#### Proposed 2022-23 Metrics

Score	Payout Ratio
Exceptional	1.50 (150%)
Consistently Exceeds Expectations	1.25 (125%)
Fully Meets Expectations	1.0 (100%)
Occasionally Meets Expectations	0.5 (50%)
Does Not Meet Expectations	0 (0%)

Please Note: the recommended removal of the Strategic Plan priority element reflects the fact that the CEO completed this task in the previous fiscal year and therefore is now expected to work toward the execution of the new plan as approved by the Board.

As well, to fully align with the recommended changes to the Compensation Policy, simplify the overall assessment of performance, and establish a consistent and standard rating scale, GGA recommends CalPERS adopt a standard five-level performance rating scale, which will apply to the CEO and all other incentive-eligible staff at CalPERS moving forward.

## Total Fund Performance (15% Weighting)

### CHANGE PROPOSED

This metric is based on fund performance against the policy benchmark for the five-year period of July 1, 2018, through June 30, 2023. Payout ratio for intermediate results will be determined by interpolation.

#### Past 2021-22 Metrics

Variance from Benchmark (bps)	Payout Ratio
+35	1.50 (150%)
+30	1.41 (141%)
+20	1.25 (125%)
+5	1.00 (100%)
0	0.76 (76%)
-15	0.05 (5%)
< -15	0.00 (0%)



#### Proposed 2022-23 Metrics

Variance from Benchmark (bps)	Payout Ratio
+10	1.50 (150%)
+5	1.00 (100%)
0	0.00 (0%)

Please Note: The rationale and historical analysis that led to the Proposed 2022-23 Metrics is contained within a separate report titled, *Investment Performance Metrics Assessment*.

## Enterprise Operational Effectiveness (20% Weighting)

### NO CHANGE

This metric for 2021-22 is defined as Overhead Operating Costs as a percentage of Total Operating Costs (“OOC”).

- Total Overhead Operating Costs ("OOC") identify all administrative costs not mapped directly to Product and Service Delivery Operating Costs ("PSDOC"); excludes Board and Third-Party Administrator Costs
  - $OOC = OOC / (OOC + PSDOC)$

Score	Payout Ratio
< -1.1%	1.50 (150%)
-1.1% to < -0.6%	1.25 (125%)
-0.6% to 0.0%	1.00 (100%)
> 0.0% to 1.0%	0.75 (75%)
> 1.0% to 1.5%	0.50 (50%)
> 1.5%	0.00 (0%)

Please Note: Any recommended adjustments to the Cost calculation have been included in the separate memo relating to the Annual Incentive Metrics Review for all Incentive-eligible staff.

## Investment Office CEM (10% Weighting)

### NO CHANGE

This metric for 2022-23 is determined by CalPERS annual participation in the CEM benchmarking survey and shows how CalPERS’ investment costs and return performance compares to a customized peer group over a five-year period.

Score	Payout Ratio
Outperforms US Benchmark on Net Value Added (Returns) <b>and</b> Cost by 0.2% and 5 bps, respectively	1.50 (150%)
Outperforms US Benchmark on Returns <b>and</b> Cost by .001% and 1 bps, respectively	1.00 (100%)
Outperforms US Benchmark on Cost <b>or</b> Outperforms US Benchmark on Returns	0.50 (50%)
Underperforms US Benchmark on Returns <b>and</b> Cost	0.00 (0%)

## Customer Service (15% Weighting)

### NO CHANGE

This metric for 2022-23 is based on two Service Dimensions:

- Benefit Payment Timeliness: Percentage of benefit payments issued to our customers within established service levels
- Customer Satisfaction: Customer service with CalPERS services as measured by surveys and other methods

Score	Payout Ratio
≥ 96%	1.50 (150%)
95% to < 96%	1.25 (125%)
94% to < 95%	1.00 (100%)
93% to < 94%	0.75 (75%)
92% to < 93%	0.50 (50%)
< 92%	0.0 0%)

## Stakeholder Engagement (15% Weighting)

### NO MATERIAL CHANGE PROPOSED

This metric for 2022-23 is based on results of the following three Stakeholder Engagement Survey questions:

- Is CalPERS sensitive to the needs of Stakeholders?
- Does CalPERS do a good job of keeping its stakeholders informed?
- On a scale of one to ten, how would you rate CalPERS being effective in engaging and communicating with stakeholders?

Score	Payout Ratio
≥ 83%	1.50 (150%)
81% to < 83%	1.25 (125%)
80% to < 81%	1.00 (100%)
79% to < 80%	0.75 (75%)
78% to < 79%	0.50 (50%)
< 78%	0.00 (0%)

Please Note: Any recommended adjustments to the Stakeholder Engagement performance calculation have been included in the separate memo relating to the Annual Incentive Metrics Review for all Incentive-eligible staff.

We trust that this letter addresses your concerns on this matter and look forward to discussing it in more detail at the June PCTM meeting. If you have any questions on the contents within this letter, please let us know.

Sincerely,

**Global Governance Advisors**



Peter Landers  
Senior Partner



Brad Kelly  
Partner

cc: Karen Van Amerongen, CalPERS