MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

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SACRAMENTO, CALIFORNIA

MONDAY, FEBRUARY 13, 2023

9:16 A.M.

JAMES F. PETERS, CSR
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APPEARANCES

COMMITTEE MEMBERS:

Jose Luis Pacheco, Chairperson

Mullissa Willette, Vice Chairperson

Lisa Middleton

Eraina Ortega

Kevin Palkki

Theresa Taylor

Yvonne Walker

BOARD MEMBERS:

Malia Cohen, represented by Lynn Paquin

Fiona Ma, represented by Frank Ruffino

David Miller, Vice President

Ramon Rubalcava

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Michelle Tucker, Chief, Human Resources Division

APPEARANCES CONTINUED

ALSO PRESENT:

Al Darby, Retired Public Employees Association

Brad Kelly, Global Governance Advisors

Peter Landers, Global Governance Advisors

Maureen Reilly, McLagan

Cora Reynolds, McLagan

INDEX

PROCEEDINGS

VICE CHAIRPERSON ORTEGA: Okay. Good morning, everyone. I'd like to call to order the Performance, Compensation and Talent Management Committee.

Please call the roll.

BOARD CLERK TRAN: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Here.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK TRAN: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Here.

BOARD CLERK TRAN: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Here.

VICE CHAIRPERSON ORTEGA: Thank you.

Our first order of business this morning is the election of the Chair and the Vice Chair. So I'm going to ask for nominations for the Chair of the Committee.

Ms. Willette.

COMMITTEE MEMBER WILLETTE: I move to nominate

Jose Luis Pacheco as Chair o the a PCTM Committee.

VICE CHAIRPERSON ORTEGA: Okay. Thank you.

Are there any other nominations?

Any other nominations?

One last time, any other nominations?

Okay. Seeing none. I have a motion to approve Mr. Pacheco as Chair.

COMMITTEE MEMBER TAYLOR: Second the motion.

VICE CHAIRPERSON ORTEGA: Okay. Seconded by Ms. Taylor.

Please call the roll.

BOARD CLERK TRAN: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Aye.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK TRAN: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK TRAN: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

VICE CHAIRPERSON ORTEGA: Okay. The motion passes. Congratulations -- congratulations, Mr. Pacheco.

(Applause).

VICE CHAIRPERSON ORTEGA: We're going to take a five-minute pause to transition, so we can slide over.

Thank you.

CHAIRPERSON PACHECO: I see now. Good morning. I'm going to be now taking nominations for the Vice Chair of the Committee.

COMMITTEE MEMBER TAYLOR: Right here. Look on the screen.

CHAIRPERSON PACHECO: Oh.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair, and congratulations.

CHAIRPERSON PACHECO: Thank you.

COMMITTEE MEMBER TAYLOR: I'd like to put into nomination Mullissa Willette for Vice Chair of the Pension -- I'm sorry the Performance, Compensation and Talent Management Committee.

CHAIRPERSON PACHECO: Thank you, Ms. Taylor. A nomination is made.

Are there any other nominations?

Are there any other nominations?

Are there any other nominations?

I have a motion to approve Ms. Mullissa Willette as Vice Chair of the Performance, Compensation Talent and Management Committee. Please do the roll call vote.

BOARD CLERK TRAN: Jose Luis Pacheco?

CHAIRPERSON PACHECO: Oh, sorry. We had to do second. We had to do another --

COMMITTEE MEMBER WALKER: I'll second.

CHAIRPERSON PACHECO: Second. We have a first from -- sorry, who was the --

COMMITTEE MEMBER TAYLOR: Ms. Taylor.

CHAIRPERSON PACHECO: From Ms. Taylor, a second from Ms. Walker. I have -- please do the -- do the roll call vote. Thank you.

BOARD CLERK TRAN: Jose Luis Pacheco?

CHAIRPERSON PACHECO: Aye.

BOARD CLERK TRAN: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Aye.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

BOARD CLERK TRAN: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIRPERSON PACHECO: The motion passes.

Congratulations, Ms. Willette.

(Applause).

CHAIRPERSON PACHECO: We will have now -- we will now move into closed session for items 1 through 3 for the closed session agenda. We will immediately reconvene in open session after the closed session begins.

Thank you very much. Anyone who's in the auditorium, please exit, that aren't supposed to be here. Thank yo.

(Off record: 9:21 a.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 11:00 a.m.)

CHAIRPERSON PACHECO: We're back in open session. And we'll continue with the remainder of the open session agenda. The first order of -- yeah, first order of business in open session will be the to call the roll -- the roll call.

BOARD CLERK TRAN: Jose Luis Pacheco?

CHAIRPERSON PACHECO: Aye.

BOARD CLERK TRAN: Mullissa Willette?

VICE CHAIRPERSON WILLETTE: Here.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

BOARD CLERK TRAN: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Here.

CHAIRPERSON PACHECO: Thank you.

Next item on the agenda is Executive report. Mr. Hoffner, please.

CHIEF OPERATING OFFICER HOFFNER: Good morning. Doug Hoffner, CalPERS team member. Congratulations to the Chair and Vice Chair in their election and for the new members of the Committee. It's good to see everybody here today.

Today we have an action consent item before you, that will be up related to or Board Comp Policy in executive and investment management positions. This reflects the changes that the Committee and Board approved both in November and in January. And we basically provided a red-lined document for you to see those changes that were approved in those two periods.

In addition, we have an information item about compensation review for the statutory positions, which was asked for by the Committee for information to be brought, and which we'll do today. McLagan will represent the compensation data. They're on Zoom. They will Provide a highlight of the comparable documents that were requested by the Board back in November. And after that, the Board's primary compensation consultant, GGA, Global Governance Advisors, will present their initial observations related to that data.

This concludes my report, Mr. Chair.

CHAIRPERSON PACHECO: Thank you, Mr. Hoffner.

Next item will be the action consent item.

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIRPERSON PACHECO: No. Sorry, I need to pull -- I have a request to pull and discuss 5C of the agenda.

Now, what's the pleasure of the Committee for 5A and 5B.

COMMITTEE MEMBER TAYLOR: Move approval

CHAIRPERSON PACHECO: I have approve -- I have it moved from Ms. Taylor.

VICE CHAIRPERSON WILLETTE: I will second.

COMMITTEE MEMBER MIDDLETON: Second.

CHAIRPERSON PACHECO: Ms. -- I will have a second from Ms. Willette.

All -- any discussion of the motion?

So all in favor -- oh, we need a roll call. Excuse me.

BOARD CLERK TRAN: Mullissa Willette?

VICE CHAIRPERSON WILLETTE: Yes.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK TRAN: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

CHAIRPERSON PACHECO: Thank you.

Now, I'd like to open up 5C for discussion.

Ms. Ortega.

COMMITTEE MEMBER ORTEGA: Thank you, Mr. Chair. Thank you for considering my discussion of this item.

So the specific recommendation I have is on 5C, Attachment 1. And it's just a recommendation in -- where the salary surveys are discussed on page 8 of the policy.

The consultants are routinely providing us detailed information about the salary surveys, but I think it would be helpful if the policy actually was expressly documenting that that information will be provided to us. So I will read the sentence that I propose to be added to that paragraph.

And it is that, "Survey results will be presented to the Board for each peer group as well as separately for each employer group". And again, this information that's provided upon request frequently, but I think it would make sense to just include it in the policy so that it is provided routinely as part of the Board item. So that would be my recommended motion is to approve that item with that amendment.

CHAIRPERSON PACHECO: Thank you, Ms. Ortega.

Do I have a second on that motion?

COMMITTEE MEMBER WALKER: Second.

CHAIRPERSON PACHECO: Ms. Walker seconds it.

Is there any discussion on the motion?

I see none.

COMMITTEE MEMBER TAYLOR: I'm asking.

CHAIRPERSON PACHECO: Oh, sorry. So sorry, Ms. Taylor. Thank you.

COMMITTEE MEMBER TAYLOR: Thank you. So I missed where. I'm --

COMMITTEE MEMBER ORTEGA: On page 8 of Attachment 1, I believe it is --

COMMITTEE MEMBER TAYLOR: Okay.

COMMITTEE MEMBER ORTEGA: -- there's a paragraph that has salary surveys as the --

COMMITTEE MEMBER TAYLOR: Right, I see the --

COMMITTEE MEMBER ORTEGA: On the header.

COMMITTEE MEMBER TAYLOR: Right.

COMMITTEE MEMBER ORTEGA: So right now it says if you read at the end of the first sentence comes up it says that, "The survey will be conducted every two years or as the Board deems necessary". And then there's -- the next sentence is about special surveys. So what I'm recommending is in there is that it explicitly says the survey results. So from that two-year survey, the survey results will be presented to the Board for each peer group, as well as separately for each employer group.

COMMITTEE MEMBER TAYLOR: Okay. So, I guess, I -- I guess I want to ask what we're trying to garner out of -- out of that piece of information. I thought that wasn't -- I thought that was provided by a different --

COMMITTEE MEMBER ORTEGA: Consultant.

COMMITTEE MEMBER TAYLOR: -- consultant, right, not our current consultant, I thought.

COMMITTEE MEMBER ORTEGA: Well, I think it's routinely provided in response to questions from the Board from either -- the surveys of either McLagan or if there's follow-up questions from the general compensation consultant. I think that point is just to make sure that that's part of a routine.

COMMITTEE MEMBER TAYLOR: So that it's presented to -- the actual survey results is presented --

COMMITTEE MEMBER ORTEGA: Correct.

COMMITTEE MEMBER TAYLOR: -- to us. Is that something that is doable?

CHIEF OPERATING OFFICER HOFFNER: Yeah. I mean, I think it -- let's clarify the question. So the results are -- are we talk -- I mean, we're seeing the results of the survey. So is that what we're trying to make sure that's included there, not just that we do a survey, that will give the results to the Committee, which we have been doing or is there more granular --

COMMITTEE MEMBER ORTEGA: I don't think it's more granular.

CHIEF OPERATING OFFICER HOFFNER: Okay.

COMMITTEE MEMBER ORTEGA: I think it's just recognizing that --

CHIEF OPERATING OFFICER HOFFNER: Okay.

COMMITTEE MEMBER ORTEGA: -- it's information that is provided to the Board.

CHIEF OPERATING OFFICER HOFFNER: Okay. That's what we're -- that's our current practice. We're providing this information. That's what this item is, so --

COMMITTEE MEMBER ORTEGA: Right.

COMMITTEE MEMBER TAYLOR: Yeah. That's why I was confused.

COMMITTEE MEMBER ORTEGA: It is current practice, but I don't think it's documented at all in the policy, so.

CHIEF OPERATING OFFICER HOFFNER: No, I get you. I just -- but it's -- it's what we're --

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF OPERATING OFFICER HOFFNER: What's being presented today --

COMMITTEE MEMBER TAYLOR: That's where I was lost.

CHIEF OPERATING OFFICER HOFFNER: -- is just clarifying, as I understand it, That Ms. Ortega is asking for that to be specifically identified. That's provided there, so...

SENIOR ATTORNEY CARLIN: Good morning, Committee Members. Robert Carlin from the CalPERS Legal --

COMMITTEE MEMBER TAYLOR: You're no on.

SENIOR ATTORNEY CARLIN: Sorry. Wrong button.

Robert Carlin from the CalPERS Legal Office. I would recommend that we bring the proposed change you're suggesting, Ms. Ortega, back for the next revision to the item, because this item was just noticed for implementing a previous change that the Board had already approved. So it looks like there might be some room for discussion. We could take down the language at the Chair's direction, if you'd like, and then include that, because I think there's another set of visions that will likely be coming back at the next PCTM Committee meeting.

COMMITTEE MEMBER ORTEGA: Totally fine for me. So with that, I will withdraw my earlier motion and make a motion to approve and then bring back the -- well, let me ask, Mr. Carlin, do -- should we defer action on today's or...

SENIOR ATTORNEY CARLIN: Because today's is just encapsulating things that the Committee and the Board have already approved, I think it's totally appropriate to move forward with that. And we can just -- we have the language now that you've offered and we can bring that back as a potential change as well.

COMMITTEE MEMBER ORTEGA: Okay. So I would move approval of the item today as recommended by the staff and then as discussed bring back the suggested language for the next discussion.

CHAIRPERSON PACHECO: Okay. Do I have a second on it?

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON PACHECO: I have a first from Ms. Ortega, a second from Ms. Taylor. Is there any discussion on that -- on that motion?

I see none.

Roll call, please.

BOARD CLERK TRAN: Mullissa Willette?

VICE CHAIRPERSON WILLETTE: Yes.

BOARD CLERK TRAN: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

BOARD CLERK TRAN: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Aye.

BOARD CLERK TRAN: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK TRAN: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Yes.

BOARD CLERK TRAN: Yvonne Walker?

COMMITTEE MEMBER WALKER: Aye.

CHAIRPERSON PACHECO: Thank you.

Next item on the agenda is the information consent item. I see no requests to move anything out of that. So we're now moving on to Agenda Item number 7. The item, the compensation review of statutory positions.

I would like to now move it to Ms. Tucker. Thank you.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Chair and thank you, members of the Committee. Michelle Tucker, CalPERS team member.

Item 7a presents compensation survey data for classifications covered by the Board's Compensation Policy for executive and investment management positions, including the Chief Executive Officer, Chief Actuary, Chief Financial Officer, Chief Operating Officer, General Counsel, Chief Investment Officer, and all investment management classifications.

Maureen Reilly and Cora Reynolds Maureen Reilly and Cora Reynolds of McLagan are here today to present the review of CalPERS compensation data in comparison to the Board's defined comparator groups for executive and investment management positions. As a reminder, similar data was also presented last February. Since that time, and based on Board input and approval, weightings were applied to the categories within each of the two comparator groups.

The Board's primary compensation consultant, Global Governance Advisors, has reviewed the survey data and Brad Kelly and Peter Landers will provide their initial observations to aid the Committee in determining next steps.

The goal of today's meeting is to review the data and discuss gaps in compensation where applicable. This will set the foundation for GGA to return in April with recommendations on how to address the identified gaps. I would like to bring to the Committee's attention today that although the Chief Health Director position could not be included in today's data review, GGA will have current comparative compensation data, which will be brought back to the Committee in April as well.

That does conclude my opening remarks and if no further requests, I could invite McLagan to begin their presentation.

CHAIRPERSON PACHECO: Definitely, Mr. McLagan.

(Thereupon a slide presentation).

MS. REILLY: Thank you so much, Michelle. My name is Maureen Reilly and I'm with McLagan, as well as Cora. And just for those of you who may be new or not familiar with McLagan, we conduct -- we provide compensation data, analytics, and consulting to financial services firms all over the world. And Cora and I specifically work with asset managers that include your traditional advisory firms as well as U.S. public pension funds, endowments, foundations, corporate plan sponsors. So we're well versed in the asset manager asset owner space.

So if you don't mind going to the next page.

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MS. REILLY: What we were asked to do, as Michelle said, was provide an update to the compensation data that was provided last February for the executive positions shown here on this page, as well as the investment management positions. Each of these has a specific peer groups. So the -- they're in the executive peer group and separately an investment management peer group. The weightings have since changed since the last analysis, and that is what we are providing this update for here today.

And for us, for our data, we use the data that -- it comes from our proprietary data system. So we work with financial services firms all over the world, and in these instances asset managers, on collecting their compensation data from them. They send us their full census as well as their associated compensation data for each individual and a survey benchmark. And the way that those survey benchmarks are provided is that we have our job description, so that we avoid any type of bias in terms of matching. We don't match anybody based on title alone.

So for an example, and this position is not included and it's just a straightforward example, is if you have a senior accountant at a firm that may have three years of experience, a senior accountant at a separate firm may have eight, and a senior accountant at another firm may have 12 and manage staff.

So what we do is we have job descriptions that allow firms to align their each individual based on years of experience, their management responsibility, the overall role, responsibilities that each individual has. They match them into our surveys and then that allows us to provide these survey benchmarks back to you and to others.

If you don't mind going to the next page.

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MS. REILLY: So for us what we were doing is we updated for -- it starts for the executive positions, there's -- the peer group includes three different sets of data and then a combined set of data. So the first is looking at leading U.S. and Canadian public funds, California-based agencies, and then separately private sector firms, which would be the asset management business within banks and insurance companies.

Each one of these are weighted a third, a third, a third, and then they -- we give a combined peer group, which you'll see. The underlying data for each of those other peer groups is found in the appendices. But what we do is we calculate this data internally, so we calculated the leading U.S. And Canadian public fund group data. We calculated the California based agency data. We calculated the private sector data. And then we took a third of each of those calculations to create that combined peer group. And we'll get into that on the next few pages.

And then separately for the investment management positions, we looked at the large and complex institutional investors, So these would be your U.S. And Canadian public funds, endowments and corporate plan sponsors, and then separately we also looked at your private sector firms with assets under management 150 to 500 billion. So these would include your invest management advisory firms, banks, insurance companies.

Next page, please.

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MS. REILLY: Next.

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MS. REILLY: Okay. So for us, I'll take a step back. So we've already collected the data from each of these underlying firms. We've looked at it. We've looked at your peer groups and we said, okay, for the executive management peer group, we have to calculate the underlying data for each of those three separate groups, and then take a third of the weighting for each one. And what this does is this gives us the market data here shown on this page.

And what you're seeing on this page is at the top is the bar chart and anything in blue represents CalPERS. Anything in gray represents the competitive market data. Underneath shows you for CalPERS the max, mid, and minimum points set internally. The market data shows you the 25th percentile, the median, and the 75th percentile.

And now looking at the far left at those two sets of bars, you see CalPERS salary midpoint is 503,000. Calculating the market data looking at the median, it's 499,000. So you can say that CalPERS current salary midpoint is set right about at the competitive market median for your peer group. And looking at those bars, and this is a small -- these are small. So it's a small sample, but that white line in the middle of each of these bars represents either for CalPERS the midpoint or for the market -- the market median. And then the top of the bar represents the 75th percentile and the bottom of the bar represents -- the bottom line represents the 25th percentile

Moving on, looking at salary and target total cash for CalPERS, CalPERS target total cash for CalPERS, CalPERS target total cash compensation, looking at the midpoint, is $639,000. Looking at the market -- so the market is made up of actual salaries, as well as actual cash incentives awarded for the 2021 performance year. So we don't include targets or maximums for the market data, it's actual that are paid out. So this is just actual cash incentives paid for the 2021 performance year plus salaries.

And then separately, you can see salary plus the max compensation for CalPERS, 704,000 versus the market. The total cash number did not change, as we don't include maximus or targets within the markets. This is actual data.

And then separately looking at the salary and target total compensation for CalPERS at 775,000 at midpoint. The market total compensation includes salary, that actual cash compensation value at -- cash bonus compensation, and then separately long-term incentives. And so at median, that number would be 2.268 million.

Are there any questions so far?

CHAIRPERSON PACHECO: No. Keep on going.

MS. REILLY: Okay. Sure.

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MS. REILLY: So then the next page, this is looking at the Chief Financial Officer. It's the same thought process and layout as the previous page, but what you can see here is that the salaries for CalPERS, the midpoint, at 297 versus the market median of 312. You can see it's just slightly below. Salary plus target cash compensation for CalPERS is 378,000 versus the market total cash compensation of -- at median is 494,000, for salary plus the maximum compensation for CalPERS, you can see that the market did not change. Again, it did not change and CalPERS is 416 at midpoint. And then for total compensation for the market, we included this just for reference, so that you have it and you'll it for the next knew executives, but not for -- obviously for CalPERS.

But you can see that the market total compensation, if you -- if the market includes long-term incentives for chief financial officers, the total compensation goes up to around $570,000 at midpoint -- at median.

Next.

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MS. REILLY: For the General Counsel, you can see the salaries, CalPERS at midpoint is 308,000 versus the market of 336,000 at median. Salary plus the targets for CalPERS are 391 at midpoint. The market total cash compensation is 587,000 at median. Now, looking at the maximums for CalPERS of 431 at midpoint versus again the market total cash at 587 and the private sector -- or, I

Don't want to say the private sector, but private sector includes the long-term incentives. That's where we find the majority, but when you include long-term incentives within this peer group, $665,000, it would be the median compensation for a General Counsel.

Moving on.

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MS. REILLY: The Chief Actuary. I just want to note that for the Chief Actuary, there's very limited data available for the public fund space, so the public funds are not included in this data set. This is weighted differently than the other peers. It's weighted 50 percent towards California-based agencies and 50 percent towards the private sector firm. So every other executive that we've seen so far and that you'll see right after this was a third towards public pension funds, a third towards California-based agencies, and a third towards private sector.

But due to the lack of data for the public fund group, it's 50 percent towards California-based agencies and 50 percent towards private sector firms. I just wanted to make that clear. And when looking at the salaries, you can see here that CalPERS midpoint of 264,000 falls just short of the market of 276,000 at median.

When looking at market total cash compensation, CalPERS target of 336 versus the market of 494,000 at median, CalPERS maximum at 370,000 at midpoint versus the market's 494. And again looking at total compensation for the market, the median is $560,000.

Moving on.

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MS. REILLY: The Chief Operating Officer. For salaries, CalPERS midpoint of 250,000 versus the market median, you can see is 335,000. The target -- CalPERS target of 318 at midpoint versus the market total cash is 586. And again, just as a reminder total cash is salary plus actual cash incentives awarded. And CalPERS maximum midpoint of 350,000 versus the market's 586. Now, you can see on the right, the market total compensation, which includes long-term incentives, would be 696,000.

Okay. Next.

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MS. REILLY: Okay. Before we move on to the investment management group, are there any questions on the combined peer group for executives, the data that we the data that we --

CHAIRPERSON PACHECO: I see -- I see no questions.

MS. REILLY: Okay.

CHAIRPERSON PACHECO: Continue. Thank you.

MS. REILLY: Thank you. All right. So moving on to the investment management peer group and this is primarily when we talked about the job descriptions and aligning the job descriptions based on years of experience. Roles, responsibilities really comes into play, because you have -- could have an Associate Investment Manager again at CalPERS and an associate investment manager at a peer firm or fund, and they have completely different years of experience.

So this is where matching into our surveys really comes into play in this Aspect. So this page here, it only shows salaries. It only shows CalPERS salary ranges versus the market salary. And again, the bars are -- represent the same as the prior charts we just saw. CalPERS is in blue, the market is in gray, and you can see for the Associate Investment Manager, CalPERS midpoint of their salary range is 146,000 versus the market salary median of 167,000.

For the investment manager role, CalPERS, their midpoint is 244,000 versus the market's salary median of 212,000. For the Investment Management Director, CalPERS midpoint of their salary is 321 versus the market of 285,000.

For the management -- Managing Investment

Directors, the midpoint for CalPERS is 412 versus the market median of 362,000. For Deputy CIOs, CalPERS midpoint is 453,000 versus the market salary range of 409,000. And for the CIO, CalPERS midpoint of 566 versus the market salary median of And if we move on.

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MS. REILLY: Okay. So when we're looking at this, this is looking at CalPERS target total cash versus market total cash. And again market total cash includes salary and cash incentives that were actually awarded. For the associates, the midpoint is 185 versus the market total cash of 260. Investment managers you can see the midpoint of 342 versus the median of 415. The investment director, midpoint of 482 versus the market total cash of 641. CalPERS Managing Investment Directors of 700 is the midpoint and the market total cash at median is 907. Deputy CIOs, you can see CalPERS is 816 is their midpoint versus the market total cash of 1.073 million.

And then for the CIOs, the market total cash is -- a median of 1.85 million versus 1.32 for CalPERS midpoint. Just as a reminder, for the competitive market. This excludes any type of long-term order deferred awards.

And the next page.

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MS. REILLY: So this still incl -- excludes long-term deferred awards. This looks at CalPERS maximum total cash values versus the market total cash. So for the associates at midpoint is 204 versus the market total cash of 260. You can see CalPERS midpoint for the investment managers is 390,000 versus the market of 415. For investment directors, CalPERS midpoint 562,000 versus the market of 640,000. For managing investment directors, CalPERS midpoint is 845,000 versus the market total cash of 907. Deputy CIOs midpoint is 997 versus the market total cash of 1.073. And for CIOs, CalPERS 1.415 at midpoint versus call it 1.9 for the market total cash.

And if you go to the next page.

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MS. REILLY: So this includes long-term incentives and deferred awards for the competitive market. So this is the market total compensation. CalPERS, this includes their salaries, annual incentives at target, and long term at target. So it's their target total compensation versus market actual compensation. This is for long-term incentives. These are what were awarded for the 2021 performance year. These are not any type of awards that may have vested in 2021. They were granted for the 2021 performance year for the market.

So for the associates the midpoint is 225 versus the market total compensation of 295. For investment managers, CalPERS, midpoint of 439 versus the market median of 491. You can see in investment directors, CalPERS midpoint of 642 versus the market total compensation of 846. For the managing investment directors, CalPERS midpoint of 989 versus the market total compensation of 1.3 million. Deputy CIO CalPERS 1.178 for the midpoint versus 1.5 for the market total compensation. And for the CIO of CalPERS, 1.698 at midpoint versus the market total compensation of 2.7 million.

Okay. Next.

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MS. REILLY: So that is -- that shows the combined peer groups for both the executives and the investment management group. The appendix here shows each of these same positions broken out for each of the individual peer groups for the executives. So it will show -- if you got to the next page.

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MS. REILLY: Sorry, next page

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MS. REILLY: Yep. So this shows the CEO data just for the public fund peer group. And the public fund peer group again looks at the leading U.S. and Canadian public funds. So I'm not sure if we want to go through each of these individual pages in the next -- I think there's about 20 more slides that shows the underlying data for each of these individual peer groups. Certainly happy to take you through that, but just let me know if that is a need.

CHIEF OPERATING OFFICER HOFFNER: Maureen, I think we have a question maybe

CHAIRPERSON PACHECO: Yes. We have a -- sorry. Thank you, Maureen. We have a question from Ms. Ortega.

MS. REILLY: Sure.

COMMITTEE MEMBER ORTEGA: Thank you, Mr. Chair.

Maureen, I have a question about when looking at the incentive awards and the -- help me understand the relationship between the survey and if that -- like on the incentive award, is it a point in time, so it's that year's incentive payouts, but then how that relates to how we use the data to set an incentive target for a multiple -- for maybe multiple years. I'm just trying to understand like if you have a year with very high incentive payouts --

MS. REILLY: Um-hmm.

COMMITTEE MEMBER ORTEGA: -- and maybe the next year, they're much lower, how does that interact with how we set it as a compensation structure?

MS. REILLY: Sure. So compensation lags the market by about a year in terms of when it's collected and when the survey results are actually able to be published. So for this, for 2021, for the private sector was the best pay year in -- probably ever. So incentives were very, very high. So in terms of how you go about looking at this data, it's not as if -- when we are asked to provide this data, it's not as if CalPERS said, okay, we're going to review our compensation this year, because 2021 was a great pay year. But no, when you do this again in two years, pay is coming -- pay will definitely be coming down in 2022 and we can anticipate 2023 pay will also be coming down.

So it's not as if we're cherry picking a great year versus a bad year. But it will normalize itself over time, because of the fluctuations in the market. And because there are gaps to market, you will close those gaps over time. But it's not something as if you were to look at this and say we need to necessarily just look at the median or strive to the 75th because you know that it was a great year, it could be that you used the market data accordingly in terms of the performance within the market. So when you see this again in two years, the data -- I'm not going to predict, but the data will be a lot lower than it is right now.

COMMITTEE MEMBER ORTEGA: So just a follow-up on that. When you talk the data normalizing and perhaps in two years, is that because you see on the private sector side the payouts actually get reduced?

MS. REILLY: They do. Yes, public funds it's much more muted and regimented where they don't see a large swings in the data up or down. Private sector, they do. Especially for the senior investment positions, they do fluctuate up and down with the market --

COMMITTEE MEMBER ORTEGA: Okay. Thank you.

MS. REILLY: -- because of firm performance.

CHAIRPERSON PACHECO: All right, Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So I'm going to have to ask the question then why wouldn't we do the median like for three years or five years or something like that? Because I think you said it didn't make sense Maureen to do a median, because we do this every two years. But since we only do it every two years and we're basing our pay scale for these positions on that, then why wouldn't we choose to do a median of some kind?

MS. REILLY: I think for -- this would be a GGA to jump in for -- as your consultants to comment on how you would set your pay using the market data.

MR. LANDERS: Thanks. Peter Landers from Global Governance. So yes, Maureen makes a valid point that, you know, actual total cash numbers can definitely fluctuate from year to year. You know, that's one approach you could look is looking at a three-year average of those payouts. Luckily, we have, you know, last year's data that we could definitely try and look at that sort of averaging, at least over the last two years or so, as one piece of information.

Ultimately though, I think looking -- whether you look at 2021, 2022, as Maureen said, looking at what that overall total compensation package looks like that includes both, you know, short term, but also the longer term incentives. I think the key is to look at -- you know, we looked at the data this year versus last year. The data hasn't fluctuated all that much at the -- at the midpoints. So, you know, we have some definite comfort in seeing that the data, although maybe slightly skewed one way or the other still relatively representative at that median of a similar type of number. But that's definitely, you know, something you could look at is a -- is a multi-year average approach, if that was something this Board wanted to look at. But again, I don't think it's going to affect the result all that too much when we actually get to sort of the final recommendations.

MR. KELLY: Brad Kelly, Global Governance Advisors. I'd like to also add that when you look at investment institutions, most of them do not pay incentives based on just a 12-month period of performance.

Most of them like you will have, you know, three to five years rolled in as an average. And so you would say that, yes, last year was a good year in the investment world, but it would be muted, because it would be bundled in with multiple year's performance, especially in the -- in the public sector where you have public funds that are relatively incentivized on three to five year horizons.

So yes, there would be some slight upward pressure, but it would be muted by the fact that there are multi-year performance periods and also the fact that you have State agencies blended in here that don't have any -- their performance wouldn't have any real bearing on the investment community in the past year as well.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON PACHECO: Thank you.

There's no -- is there any more discussion?

Yes, Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you.

I want to separate out the investment positions from all of the other positions. In looking at the survey material that we received for the public sector employees, and again not talking about investment positions, how many of them have incentives as a part of the salary as opposed to simply paying a salary?

MS. REILLY: So your peers for the Investment staff?

COMMITTEE MEMBER MIDDLETON: Non-investment staff, Chief Operating Officer, Chief Financial Officer, General Counsel, how many of those in the public sector, outside of CalPERS, are receiving incentive payments?

MS. REILLY: For your specific public sector peer group, we'll have to look to get the exact number, but I would say roughly half, but we can come back to you to get the exact.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

MS. REILLY: Um-hmm.

MR. KELLY: If we could add to that. A very easy what to look at that is to say if you look at the public sector cut and you look at the base salary versus total cash or market cash, then you could -- you could ascertain, you know, roughly what's the Delta there. And if it's a huge Delta, then you could -- you could surmise that an overwhelming majority would have incentives associated with it, but if there's not much of a gap between the base pay and total cash, then you could also assume that relatively few of them would be offering incentives.

COMMITTEE MEMBER MIDDLETON: All right.

CHAIRPERSON PACHECO: Are there any more

questions, Ms. Middleton?

Are there any additional questions from the Committee?

Yes, Mr. Ortega.

COMMITTEE MEMBER ORTEGA: I have an overall question for -- so I don't know -- I don't know if we're not going to go through the rest of the presentation, that's fine. I can ask the question now. I can wait if we're going to go through the rest of the slides, so...

CHIEF OPERATING OFFICER HOFFNER: So maybe we can clarify. Doug Hoffner, CalPERS team. There are sort of repetitive McLagan slides that breakout each of the categories and then there's a slide deck that I think is eight to 10 pages that Global Governance Advisors put together to provide sort of feedback based upon their review of the data. And maybe we could go through that and then sea if there's questions or take the questions ahead of that.

COMMITTEE MEMBER ORTEGA: I think then my question would be before the GGA presentation.

CHIEF OPERATING OFFICER HOFFNER: Okay. Perfect.

CHAIRPERSON PACHECO: Yeah. I would follow what you made suggestion.

COMMITTEE MEMBER ORTEGA: Okay. So my question is just about the -- I think it's the one-third category of the U.S. and Canadian pension funds and kind of when the list of who we're compare -- using as the comparators was last kind of reviewed, updated? And I'll tell you it's based on a question that has to do with some of the size of some of the pension funds that are in versus some that are out, and just really looking for a little education about when this was last considered. So there's a couple of funds that are in the comparator group that are quite small compared to funds that are out, like some of the New York funds, some other U.S. large funds that are not in, and just kind of wondering what the decision was around that and when that was last reviewed.

MS. REILLY: Sure. So the investment management peer group was adopted in 2013 and that was to look at large complex institutional investors. So that was looked at and reviewed. And at the time, those U.S. and Canadian public funds were chosen, because they were large enough and complex enough to be considered a peer for CalPERS. And then in 2015, it was decided that for the executive management group that they would include those same U.S. and Canadian public funds that are in the investment management peer group. So it was since roughly 2015.

COMMITTEE MEMBER ORTEGA: Okay. Thank you.

MS. REILLY: Um-hmm.

COMMITTEE MEMBER ORTEGA: Is there any -- do we have any Board policy that directs any kind of refresh or reconsideration of any of that? Maybe this is for the team or -- I'm not sure who's the right person to ask that question.

HUMAN RESOURCES DIVISION CHIEF TUCKER: When the Board last heard this item, we did affirm the weighting of a third, a third, a third.

COMMITTEE MEMBER ORTEGA: Right.

HUMAN RESOURCES DIVISION CHIEF TUCKER: I think you could, you know, direct McLagan, you could direct GGA to come back and reevaluate that for a future year.

MS. REILLY: Um-hmm.

HUMAN RESOURCES DIVISION CHIEF TUCKER: But we have provided this data I think every year for the past several years. So GGA, I don't know if you have anything further.

MR. LANDERS: The only thing I'll add is I think, yeah, part of it was definitely looking at more complex organizations that had a pretty significant amount of internally managed assets versus externally managed assets. And I will say this, New York definitely has a different scheme in terms of their compensations. They tend to have, I think, a lot less on the incentive side. So, I mean, that's something that we could definitely look into. I will point out though that, you know, that one or two data points when you look at a large sample of a lot of different funds might move the needle slightly, but it's not going to make a huge material impact on the overall numbers, but that's definitely something I think working with McLagan we could definitely add those types of funds and have a discussion. But if we're talking about one or two peers, it most likely -- Maureen can, you know, verify this or not, but I would suggest, based on my experience, it's not going to dramatically change the overall numbers that we see on these pages.

MS. REILLY: No, it definitely will not dramatically change.

COMMITTEE MEMBER ORTEGA: I mean, I think I'm happy to acknowledge changing one or two is not going to swing anything one way or the other. I guess my question was when is it last reviewed and that was 2013 and 2015, which seems like a long time go, and perhaps a conversation about the entire -- so, yes, the decision was made to do one-third, one-third, one-third. I didn't support that. Again, happy to acknowledge I didn't support that. But the question now is then what's the makeup of the one-third. I know some of that information is not divulged to us. But on the U.S. and Canadian plans, it seems like it would be worth having a conversation about whether that's still the right group of people to be using as the comparator group. So my recommendation would be that the Board ask for that information to be brought back.

CHAIRPERSON PACHECO: Are you saying -- just, Ms. Ortega, are you saying to bring back the information on how we selected those peer groups back in 20 --

COMMITTEE MEMBER ORTEGA: Yeah. Maybe the recommendation is that we have a discussion in the next PCTM about the makeup of the current list of funds that are in that one-third --

CHAIRPERSON PACHECO: Um-hmm.

COMMITTEE MEMBER ORTEGA: -- and, you know, why and whether we should be reconsidering it. I would look to our consultants to give us that advice.

MR. KELLY: Recognizing that there hasn't been any material adjustments to a lot of these positions over now encroaching on six years, we would recommend that the Committee at least move forward with some sort of direction by the next meeting. And then we would also entertain working with you in terms of establishing what criteria would go into distilling out that particular peer group, in terms of, you know, what size asset class -- or how many -- what assets under management would be applicable, what would be that threshold -- or minimum threshold. Also, in terms of Peter's earlier comment about complexity, internal versus external, what percentage would you want ideally if you were to have -- it wouldn't make sense to benchmark yourself against a completely passively managed fund versus an actively managed. So what are those thresholds?

We'd be happy to work with you in terms of defining those goal posts, those parameters, so that we can go -- come back and distill an update -- an updated peer group. But I think it would -- our recommendation would be to not further delay this, but understand that we can further distill and improve that group going forward.

CHAIRPERSON PACHECO: Are there any more questions, Ms. Ortega?

COMMITTEE MEMBER ORTEGA: No. I mean, I didn't think number 7 was an action item. So I'm a little unclear what we would be delaying by asking for that to come back for discussion. And I think -- I think, you know, having that discussion about who's in and who's out, and why and why not, and setting some clear reasons for why some entities are in would go a long way to providing a little bit of transparency around this process. So I think -- I'm not suggesting that at the end we make -- that is going to be some radical change to who's in, but I don't know that it's clear to everybody or the public at this point what that one-third is made up of.

CHAIRPERSON PACHECO: Ms. Or -- thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you.

I mean, you know, we haven't done it since 2016, but we're so slow moving when it comes to doing this, that I'd hate to provide us another delay as we move forward. I know this is an information item, but it still -- then it becomes another information item before we make a decision. So, I mean, we could also do a side-by-side with STRS and make sure we're in the -- on the right track, if that makes it easier. I don't know. I just feel like, you know, we move like a great big old battleship and it's not very -- it's not very conducive to keeping our employees, so...

MR. LANDERS: Yeah. The only thing I'd is, you know, definitely I think, you know, there's -- I think there's definitely rationale for sure in terms of making sure that everyone here is comfortable with the makeup of the peers especially in that U.S. and Canadian pension fund group. But I think it is important to realize that -- and I'm sure McLagan can fill in more details. You they, they've already probably taken a very disciplined approach in terms of having some solid rationale in terms of external versus internally managed, different size assets groups.

So to Brad's point, I think a little to Theresa's point, I think there's definitely -- let's get the group and make sure everyone is comfortable with it, but I think, you know, it's not going to drastically, I don't think, change the numbers, so we wouldn't again want to delay things too much further. And I think there's still, you know, valid reasons for coming forth and saying here's -- you know, here's how we can fill some of these gaps that we're seeing and do it in a way that, you know, realizing I think all of us that, you know, the data is not going to change all that much. Let's make sure we're comfortable with the peer group, but let's not allow it to just sort of stall the process too much longer. That would be sort of my recommendation.

CHAIRPERSON PACHECO: Thank you.

Ms. Walker.

COMMITTEE MEMBER WALKER: All right. I heard something --

CHAIRPERSON PACHECO: Sorry, Ms. Walker.

COMMITTEE MEMBER WALKER: Too many buttons. Thank you. I heard something a little different, so I want to make sure, Eraina, that I'm hearing or maybe I read into what I heard you say. But what I took from what you said is that this hasn't been looked at since 2013, whatever the date was, and so do we have an established thing that we refresh the list, right? Is it every five years? I don't know what the right thing is. And that's what I heard her asking as opposed to let's delay something.

And I think that that's the right thing, why wouldn't we have it on -- it should not be something that stays forever, right?

CHIEF OPERATING OFFICER HOFFNER: Yeah, so it's not in the policy. The policy does speak to doing salary surveys typically on every two-year basis. It doesn't get in the granularity of miss Eraina's comments, so --

COMMITTEE MEMBER WALKER: But maybe it should.

CHIEF OPERATING OFFICER HOFFNER: No, agreed. So I'm just saying that it's not -- that it doesn't exist today at the moment, so...

COMMITTEE MEMBER WALKER: Right.

MR. LANDERS: And I will say just -- I think there's mixed practice in terms of the other funds that we work with. Some very much have the details of here are the exact sort of pension funds and that we compare to, and others are more comfortable with, you know, the approach that you've taken so far in terms of the policy, which says we're going to look at, you know, leading funds, and then working with your consultants to make sure that, you know, you're comfortable with that list, but they don't necessarily get into the details of these are the exact peers.

So I wouldn't say that what you're doing is the wrong thing that you're doing right now, but, you know, there's definitely examples out there where you could get a little more granular as well. It really comes down to what does this Committee ultimately -- you know, what are you most comfortable with moving forward, and then we can obviously work with staff to update the policy accordingly.

CHAIRPERSON PACHECO: So I have a question about that. I just want to understand this. So the -- so the thought is is to review these peer groups after, not right now, but in a -- in a future setting, is that correct, is that my understanding?

HUMAN RESOURCES DIVISION CHIEF TUCKER: Well, today's information item is to review the data, to, you know, provide a summary of GGA's initial recommendations. And then the plan was to return in April with an action item from GGA. And I think I heard GGA propose that you proceed with that and then also look to add in the granularity, as Mr. Hoffner said, in the policy sort of prescribing the composition of a third, a third, a third, working with McLagan and GGA.

CHAIRPERSON PACHECO: I see now.

MR. LANDERS: And we would definitely -- so in between I guess now and April, we would also solicit feedback from the Committee on what you think that criteria should look like, so that if there are any major tweaks to, you know, running some data, we can obviously provide that sort of updated data at the April meeting as well, when we're coming forward with the recommendation. So we would try to definitely work with the Committee members to make sure we get your views on what should be in, what shouldn't be in as part of that process to keep sort of things moving along smoothly. So definitely it's not in a vacuum. We want to make sure we get feedback from each of the Committee members and get your thoughts on this.

CHAIRPERSON PACHECO: I would -- I would appreciate that. I think that would be a good approach. That's a very good -- as long as we're moving forward with respect to this.

MR. KELLY: And in addition, I guess, as a continuation of our work on the Compensation Policy, we would definitely work with Ms. Ortega and Ms. Walker and take your advice and better define within the policy itself what are the -- what's the criteria, but also the process timeline. So what is an appropriate time period, is it three, five, seven years? We don't know, but we would solicit your feedback on that and we'll make sure that it's appropriately identified within the policy going forward.

MR. LANDERS: And I would say probably as a -- as a market sort of typical practice, you probably would get into the habit of just reviewing that group, you know, every time you run the survey, so every two years or so. Just make sure that the Committee, the Board is comfortable with the list. Obviously, if you're doing it within a two-year period, you're probably not going to see monumental swings in the makeup of those peers, depending on the criteria of course, but it's probably a good practice to get into that every time you run a survey like this, you're -- you're trying to make sure that everyone is comfortable with that list before hand, so that it -- you know, there's clarity from a McLagan and staff's perspective on how you want to move forward.

But again, I hate to say, it depends. You know, some organizations do review these things at a little bit less often approach. So it's up to this Committee, but I would say typical practice is to do it every time you're running sort of a benchmarking exercise.

CHAIRPERSON PACHECO: Thank you very much.

Ms. Willette.

VICE CHAIRPERSON WILLETTE: Thank you so much.

Thank you for the presentations. I really appreciated the information in such a digestible format. And I think to my colleagues' points, I would -- I understand. I think we're kind of having various steps here, and they're all getting kind of jumbled together. But I think I would be in favor of, one, reviewing the policy broadly. When do we -- how often are we doing the reviews, how often are we updating the lists. And then two, you mentioned that this -- the other organizations that were included were based on the criteria.

And so in order to update the organization, we have to look at this criteria. I'd really be interested in knowing what criteria was then used this time if -- before we even go into do we need to update it or not. And I think that kind of gets to the idea of a little more digging into what's behind the scenes and then also looking at knowing what the criteria is. These may just be fine comparisons, right? Absolutely. But I think the -- knowing the criteria being used kind of gets to the question as well. And I'd be in favor of doing that, bringing that back before April to the Committee or by April.

CHAIRPERSON PACHECO: Thank you, Ms. Willette.

I'm going to go down to Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you.

We've had a number of conversations over many years on this subject. And this Board has tried incredibly hard to create an incentive package that works. And every time we approach this, we seem to make it more complicated, more difficult. And as I look out in the audience as these conversations go, I look at our critical members of our executive staff having faces that keep dropping in terms of their facial expressions while they try not to give any.

What we have is the most important public pension organization in North America and a number of key executives who should be the very best in North America and compensated as the very best in North America. And I don't think we're doing that today. And I'll work with my colleagues in any direction we want to go, but I believe we should pull out our CEO, our CFO, our COO, our General Counsel, our Chief Actuary, and our Chief Health Officer and pay them the salary that they deserve, and identify what this salary is, and focus on an incentive program for the Investment Office alone and no one else.

And when we get the incentive program for the Investment Office correct, and we are proud of what we have done, then and only then may it be appropriate for us to look at some of the other positions.

Thank you.

CHAIRPERSON PACHECO: Thank you, Ms. Middleton.

Are there any other discussion on this item?

So I would like to bring --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Mr. --

CHAIRPERSON PACHECO: Yes, ma'am.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Pardon me, Mr. Chair. GGA does till have a summary of the recommendations.

CHAIRPERSON PACHECO: Oh, sorry. So sorry. So sorry.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Okay. Yeah.

CHAIRPERSON PACHECO: Go right ahead. I apologize.

(Thereupon a slide presentation).

MR. LANDERS: Just to clarify these are observations, so we're not for -- coming forward with any recommendations at this time, but it's just observations when looking at the data.

If we can move to the first slide, please. I think this is the back of the slide deck.

MR. KELLY: Excellent. Thank you very much. Brad Kelly, Global Governance Advisors. This is our item now. Before we get started again, we would like to recognize and congratulate all the members of this Committee, this newly constituted committee, and express that we're looking forward to working with you in the coming year.

So thank you.

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MR. KELLY: And again, this is just our immediate observations from the revised McLagan data. We have this slide up front here just to remind the Committee of the process through which we went through to get to this point. We have done a number of data cuts so far. And so that led us to the workshop that we had in November, which was part of our policy review, where we tried to distill and had an open dialogue about the composition of the peer group. And there was an agreement on the two-thirds, one-third split. So we took a more kind of objective split within terms of the peer group. The two-thirds in public sector for the executive positions comprised government -- both government agencies and public pensions and the one-third is private -- just private institutions.

And for the investment roles within the -- that fall under the policy, the two-thirds were strictly just the public pensions and the one-third were private agencies. So again, the data that McLagan just ran took this more prescriptive methodology, the weighted methodology that this committee and the Board had approved in November. And that led us to the initial observations that we will walk you through today.

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MR. LANDERS: Perfect. So key findings -- and we wanted to try and highlight this as clearly as we could for the Committee in this table that you see here on page four. And it sort of puts it into those three buckets, so salary, total cash, which is salary plus that annual incentive, and then total compensation, which is salary, annual incentive, and that long-term incentive piece. And what you'll see both for the executive management team and for the investment management team is overall, while there's some adjustments that need to be made, salaries are not too far off for the most part.

The biggest gap that has arisen, and this is the same as what we observed last year when we ran -- you know, when McLagan ran the data last time, is the biggest gap being on the at-risk incentive side of the equation. And so that is again that annual incentive, that long-term incentive that are tied to total fund results and then on the annual side some other, whether it's membership satisfaction, cost initiatives, individual assessments, that type of thing, that is where the biggest gap right now at CalPERS is. And our understanding is the incentive ranges that were put into place were put in several years ago now, at least three, four, five years ago.

And since then, what we can say through all the work we've done in the pension fund space is more and more pension funds are getting more and more comfortable in offering incentive for what I'll call at-risk incentive pay, meaning you have to perform. If you don't perform, you don't get the full payout. And they're becoming more and more comfortable. And so you're seeing more and more of them either adopting incentive pay or increasing the opportunity levels that someone can earn through incentives.

And so, you know, by not making adjustments to, I believe, you know, for executive staff it's around 27 percent of target, for investment staff it's a little bit -- a fair bit higher than that. But by not making those adjustments over the last three, four, five years, that's the biggest area where the gaps have started to arise. And that is something that, you know, we've observed. We observed it last year and we observe it again this year.

And, you know, we'll definitely, you know, based on the discussions today, we can go back, make some tweaks to the peer group, make sure everyone is comfortable with the methodology. But in our professional opinion, it isn't going to necessarily change these observations or these gaps all that materially. And so it's something that I think this Committee and Board just needs to look at and agree that there is a gap. And then definitely we can come forward and what we will do, based of course on Committee direction is we can provide you with different alternatives for how you can close that gap and then come forth and say, okay, of these two or three, this is our recommended approach that we think will work best for you and your situation.

And, you know, I think that's something that, you know, I think that this Committee could find quite helpful is understanding what are -- you know, if we all acknowledge there is a gap, you know, how do we best address that gap. We definitely have our views. And, you know, our view generally is let's make sure the salaries are competitive. So we'll make some adjustments to make sure the salaries are adjusted, but that the lion's share of those, you know, potential increases in pay are in the at-risk incentive pay, meaning that in order for people to earn that pay, they need to perform and generate, you know, the returns that you as a Board and that plan members are looking for, and also, you know, doing a good job on the executive staff team in terms of member satisfaction, customer -- client engagement, all those types of things, making sewer that they are generating the value-add and the value that you as a Board expect from them.

And so that's really -- you know, to sort of surmise what, you know, the observations are coming out of this, that is the biggest takeaway, the gap is largely due to lower or, you know, lower than market --

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MR. LANDERS: -- at-risk incentive pay, both on the annual incentive side, but also longer term incentive. And if you recall, that longer term incentive is looking at five year total fund results and making sure that you are meeting or exceeding that required rate of return, that 6.8 percent or historically that seven percent on an annualized basis that you're looking for. And if you -- if they -- if CalPERS doesn't generate that over a five-year period, then it's at risk, and, you know, it has the potential to not be earned at all.

So that's -- you know, that's where this gap is coming from. We've obviously highlighted on a couple of the slides in red boxes the largest gaps that we see for some of the roles.

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MR. LANDERS: But if -- you to take all this and sort of boil it down into key themes, the majority of that gap to market is coming from a less-than-competitive, at-risk incentive opportunity level that people are seeing.

So again, looking forward, you know, assuming -- we'll look to come forth in April with some recommendations on how to fill that gap and we'll be most likely coming forth with recommendations that will be tied to at-risk incentive pay that you, as a Board are only approving and staff is only approving, if results are achieved by individuals and by the total fund as a whole.

So maybe with that, I'll just open it up for any questions that this Committee might have.

CHAIRPERSON PACHECO: Thank you.

Ms. Walker.

CHAIRPERSON PACHECO: I'll do it again.

COMMITTEE MEMBER WALKER: All right. So pardon my ignorance on this. I've got a lot of questions, not a lot, but observations. So I do want to say my first observation that I met -- said about refreshing and looking at the list, it is -- that was looking forward not for what we're doing now, right?

And then my other question is how often do we look at this, because I thought I heard you say that, you know, funds change how they do things, right? And so it's been a while since we've looked at it, so that has not been taken into consideration. And I just think it's -- there's something wrong with not having it on a regular schedule to look at, again whether that's three years, five years, or whatever, but I don't think we should set something and then just think it's okay.

MR. LANDERS: So, you know, we've put into the policy now that these kind of surveys be done every two years, as part of the policy. I think there have been periodic surveys done like we did work with the Committee last year on the survey. And it's been more of, you know, rightly, wrongly, the Committee deciding at that time not to make any monumental like bigger material changes. So there hasn't really been changes to the incentive opportunity levels in at least again three to four years I think since you put in a long-term incentive plan, which was before we were the advisors here.

So I think that -- you know, that is something that once I think we get agree -- the Committee has agreement on here are the peers, here's the weighting on those peers, and we'll obviously work to get that more refined here in the next couple of months, then I think there's, you know, some decisions that the Committee will then have to make to say, we agree on the peer group. We agree on the makeup of the peers. If we still observe a gap, which again we're going to estimate that you will still see a pretty sizable gap, how do we want to then fill those gaps? We need to, you know, move on this to make sure that we are able to attract, retain, and bring in the talent that you need.

But, yeah, it's definitely something that you have done these periodic surveys. It's just you haven't always maybe made decisions --

BOARD MEMBER WALKER: They kicked the can down the road.

MR. LANDERS: Yeah, kicked the can down the road.

COMMITTEE MEMBER WALKER: And that is not effective at all for anybody.

CHAIRPERSON PACHECO: Are there any more questions from the Committee?

I see none. I'd like to -- as the Chair, I'd like to make some comments about this. You know, today's Performance and Compensation and Talent Management Committee has been a very robust discussion. And I'll say I think we've had a lot of input from all the members and so forth on the McLagan data for the executives and the investment management positions.

Moreover, I do appreciate the Committee's -- the -- our Global Governance Advisors providing us -- reviewing the data and assisting us in determining a -- well, assisting us in our initial analysis of the data and determining next steps.

You know, I see the compensation conversation regarding these statutory positions as not only a local matter but also a global recruitment issue, as we look to add more active risk to our portfolio. You know, the recommendation on the conversation -- on the compensation ranges for the executives and the investment manager positions would provide -- would provide the Committee and its members with another tool in our toolkit, not only to fulfill our fiduciary responsibilities as Board members, but also in fine-tuning our strategy for retention and recruitment of key invest -- key executives and investment managers with the right domain expertise for the long run.

You know, I think -- I appreciate the input and the dialogue. And I feel that is to move this forward in the direction. So I would like find -- move -- go back to staff and what is our next steps here?

HUMAN RESOURCES DIVISION CHIEF TUCKER: Mr. Chair, I do have that you have directed GGA to have conversations between now and April, get feed -- solicit feedback from the Board on particular aspects of what they'd like to see in advance of that April presentation. I heard discussion on whether or not those conversations needed to be completed by the April recommendations or just be happening and then could occur thereafter. And then I also heard direction to put into policy an ongoing refreshed look at the composition of the one-third, one-third, one-third groups to sort of institutionalize that in our current policy.

CHAIRPERSON PACHECO: All right. Also, there's -- you see --

CHIEF OPERATING OFFICER HOFFNER: There was some other. So I also heard, and this is maybe sort of summary of Committee direction as sort of the --

CHAIRPERSON PACHECO: Yes.

CHIEF OPERATING OFFICER HOFFNER: -- bring back -- and Ms. Ortega asked to bring back some language that we could put into the policy. So April would make sense as an amendments to the overall incentive compensation, executive management policy related to the salary survey statement that was made. So we've got the language for that. We could bring that back with any additional changes that would be forthcoming, which I believe is sort of something that GGA had on their calendar anyway, any another modifications. So that would be on the list as well.

And then Michelle Tucker covered the pension peer group review of the one-third, one-third. So these were the two main things. I heard some other discussion, but I didn't really get that as direct -- Committee direction at that point, but...

CHAIRPERSON PACHECO: I think the Committee direction with respect to Ms. Walker's comment about -- and Ms. Walker can you just elaborate? That was --

CHIEF OPERATING OFFICER HOFFNER: No, I think we've -- I think we've captured that. That's what --

CHAIRPERSON PACHECO: She just commented --

CHIEF OPERATING OFFICER HOFFNER: Sorry, Michelle Tucker led off with that one, so we kind of did reverse order.

CHAIRPERSON PACHECO: Yeah. Yeah. To move forward with respect to this.

CHIEF OPERATING OFFICER HOFFNER: We went -- yeah, with respect to --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Started at the end.

CHIEF OPERATING OFFICER HOFFNER: -- reviewing the groups that are in there, timing by which that would be -- a discussion between the Board and the consultants related to the multiple years three, five, seven, whatever it would be for review.

CHAIRPERSON PACHECO: A review, yes, exactly. And that's a --

CHIEF OPERATING OFFICER HOFFNER: But that would, I think, something for a conversation with Global

Governance Advisors, right, is they're providing some recommendations or feedback given their expertise in that space.

CHAIRPERSON PACHECO: And as I recall, we weren't -- there wasn't -- you said even -- there would be no real material change, right, that's my understanding, based on your experience in this area.

MR. LANDERS: Yeah, we wouldn't expect it to dramatically impact, especially at the median, sort of that midpoint, which is what you're targeting. We wouldn't expect it to change much. So yeah, I mean, we; had heard I think there was, you know, a need to come back with some recommendations on how we might fill some of the gaps, alongside some of the other pieces that I think Mr. Hoffner and Ms. Tucker were talking about. So we'll definitely come forth with recommendations in terms of how we might fill some of these gaps, as well as part of that April discussion.

CHAIRPERSON PACHECO: All right. I concur.

Thank you.

I think since this is -- pardon me?

Yes, now I'd like to go to public comments. And we have one individual for public comment for -- in the audience, Mr. Dra -- Darby. Sorry, Mr. Darby.

Mr. Darby, can you please recognize yourself for the -- for the record. And as you start -- you start, you will -- the clock will begin.

MR. DARBY: Mr. Chair and Committee members, Al Darby, Vice President of Retired Public Employees Association. I have a question to start with and maybe it's rhetorical, but there's a dearth of private sector pension funds anymore, defined benefit pension funds, so who would you be, you know, questioning in this survey -- in this peer group survey, because I know a very few large public sector pension funds.

So much for the -- in our view, it is very questionable to include private sector compensation as a peer group in this and comparing it to any public pension fund, because obviously the situation in private industry is that pay is the biggest factor in whatever they do, because the job -- you know, the tenure of a job is usually limited. And so the most important factor is what pay do they come in with as opposed to public sector employees, who, you know, are employees who traditionally are looking at the job as a career, and the retirement, and so forth that comes with public sector jobs.

So it's very questionable why you would include private sector folks who are in private sector -- or administering private sector pension funds in this mix of, you know, what you're looking at in terms of peer pay. So

I would certainly question including private sector pension fund folks if there are any left in this whole picture here.

Thank you.

CHAIRPERSON PACHECO: Thank you, Mr. Darby.

Are there any other additional other requests on the phone?

BOARD CLERK ANDERSON: (Shakes head).

CHAIRPERSON PACHECO: Okay.

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF TEYKAERTS: Mr. Chair, no calls on the phone.

CHAIRPERSON PACHECO: Thank you so much. So that -- so that -- thank you. So I think seeing no other requests on speaking regarding this meeting, is there any more -- any other items from staff?

HUMAN RESOURCES DIVISION CHIEF TUCKER: No, Mr. Chair. We have your action items, so nothing further.

CHAIRPERSON PACHECO: Thank you. Seeing no other requests to speak in this meeting, I have this meeting adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee open session meeting adjourned at 12:15 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 open session 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 14th day of February, 2023.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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