

**INCENTIVE PLAN | Fiscal Year 2021-22**

**Name:** Marcie Frost

**Position:** Chief Executive Officer

**SUMMARY OF PROPOSED INCENTIVE PLAN MEASURES AND WEIGHTS**

Plan Weight	Measure
25%	Organizational Leadership Priorities
15%	Total Fund Performance
20%	Enterprise Operational Effectiveness
10%	Investment Office CEM
15%	Customer Service
15%	Stakeholder Engagement

**KEY BUSINESS OBJECTIVES**

**Organizational Leadership Priorities (25% plan weight)**

Through June 30, 2022, provide organizational leadership in support of the following priorities:

- Board Support
- Open and Transparent Communication / Building Relationships
- Efficient and Effective Organization
- Supportive and Engaged Leadership
- Customer Satisfaction Driven Organization
- Team Member Engagement
- Establishment of a new 5-year Strategic Plan

*Scoring Information:* A single rating will be given for the above Organizational Leadership Priorities measure, based on the following table (intermediate points are interpolated):

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

<b>Mid-Year Update: Organizational Leadership Priorities</b>
<p><b>Board Support</b></p> <ul style="list-style-type: none"> <li>- Continued to refine the Insights Project to better align committee and board meeting agenda items with an emphasis on content management for ease of searching for past agenda items and content. Established and tested security protocols to allow for the transition of Board materials from Diligent Board Books to the internally built Insight Tool.</li> <li>- The team continues to assist board members with virtual meetings, stakeholder, and investor conferences, in preparing talking points and speeches.</li> </ul>

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- Initiated the Special Election to fill the remaining term for the public agency seat on the Board of Administration, this election will take place in 2022.
- The Board self-assessment work with the National Association of Corporate Directors (NACD), results were presented at the July Board Offsite. Workstreams to be developed with the Governance Committee.

### **Open and Transparent Communications/Building Relationships**

- Outlined CalPERS priorities and challenges facing the system including our response to the pandemic before member, labor, and employer organizations. Delivered proactive messaging on CNBC, and in Pensions & Investments, Top 1000 Funds, the Financial Times, and before audiences at the Climate Investment Summit, Association of Asian American Investment Managers, Cal Cities, Financial Times Greenwich Economic Forum, Milken Executive Circle, Reuters Impact Conference, and Bloomberg Invest.
- Authored and published an op-ed on CalPERS' commitment to diversity, equity and inclusion.
- Continued to serve as an elected member of the Pacific Pension & Investment Institute board of directors and continued to serve as a Steward on the Council for Inclusive Capitalism. Continued board membership on the International Center for Pension Management (ICPM).
- Implemented second virtual Education Forum with nearly 2,000 attendees and approval ratings remaining consistent with in-person events.
- Hosted third annual Stakeholder Forum receiving positive ratings from attendees related to content.
- Hosted the inaugural Pathways for Women event with more than 1,100 attendees featuring speakers from the SEC, Nasdaq, U.S. House of Representatives, and California CEOs and pension administrators.
- Developed centralized Asset Liability Management content on CalPERS website for employers.
- Scheduled quarterly stakeholder meetings throughout 2021 for ALM updates.
- Developed 227 email campaigns to enhance communication to members, employers, and stakeholders with an open rate of 44% that exceeds government and health care industry averages.
- Launched a dedicated searched engine for Board agenda items in response to stakeholder feedback.
- Continued bi-weekly webchats with the organization and daily emails on strategic updates and information.

### **Efficient and Effective Organization**

- The Mid-Year Budget reflects adjustments to the 2021-22 Annual Budget approved by the Board of Administration which continued many of the permanent reductions made in the prior year,

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including a \$5 million reduction in Personal Services from eliminating 32 vacant positions and reducing Temporary Help and Overtime.

- Continuing to use position pooling within the enterprise, aligning resources to the greatest workload need.
- Pension prefunding trust has grown to 58 employers and \$72 million in assets under management (AUM), this is a \$14 million increase in AUM in the last six months.
- Continuing to integrate Lean principals into the culture of how we perform our work with lean projects spanning multiple business areas to find opportunities to reduce complexity, improve processes, and enhance service to members.
- Initiated New Employee Onboarding mandatory training pilot program, this allowed new employees to be onboarded together and take their mandatory training as a cohort. Feedback has been very positive that the team members could readily apply what they learned at their new job.

### **Supportive and Engaged Leadership**

- Continuing daily huddles with the executive team to ensure cross communication and focus on organizational priorities. The pandemic had a significant impact on the organization. A COVID-19 response team was established, consisting of the Executives as well as the Chief of Operational Support Services, Chief of Human Resources, and the Chief Medical Officer. Meeting every day, we were able to quickly put into action our business continuity plan which enabled us to move 85 percent of the workforce to telework and allow us to have the remaining team members work in a socially distanced way for the programs not conducive to telework. Implemented our permanent telework policy and communicated out our telework and return to office plan along with our covid testing protocols and our covid prevention plan.
- Conducted first and second interviews for the Chief Investment Officer with the Board utilizing a global search firm to source and assess a diverse group of candidates.
- Onboarding the Chief of Diversity, Equity and Inclusion Officer and focusing on the Diversity Equity and Inclusion framework. Culture: Conducted three all-team seminars on unconscious bias to enhance cultural competence and foster trust. Talent Management: implemented DEI language into our recruitment materials and expanded training and career development opportunities for advancement. Health Equity: conducted outreach to health plan members to self-identify important demographic information and participation in Department of Managed Health Care Health Equity and Quality Committee. Supplier Diversity: streamlined changes in our vendor and supplier survey resulting in a 200% increase in participation. Investments: provided comment letters to U.S. and international governing bodies to establish financial reporting standards.
- Initiated the fifth Emerging Leader Program cohort.

### **Customer Satisfaction Driven Organization**

- Maintained exceptional customer service delivery across our core processes, with key performance indicators meeting and mostly exceeding targets. Benefit payment accuracy has been

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on target since the enterprise performance reporting tool was created in FY 2017-2018 which is the same for benefit payment timeliness.

- Continued all training virtually, achieved record attendance and received extraordinary customer satisfaction ratings. Member and employer education satisfaction remains on-target and has been in that range since FY 2017-2018 when the enterprise performance reporting tool was created.
- Enhanced the Pension Outlook tool. New ALM assumptions were added, which allows for the option to estimate the impacts to a plan's rates due to the new actuarial assumptions and the 21.3% return for 2020-21. The tool was also updated to include Random Investment Scenario feature to reflect the newly adopted investment asset allocation. The number of investment scenarios was increased to 5000, matching those used in the ALM process. There are now 974 registered users which is nearly double the users in the last six months.

**Team Member Engagement**

- COVID necessitated more routine communication across the organization about the latest health and safety guidance, impacts to the organization, our return to office plan, our permanent telework policy as well as health updates from Dr. Logan on the latest related to the pandemic. This was done through daily email updates and then twice a month live webchats providing direct communication to the team members and allowing them to ask questions during the live broadcast. The webchats have included special guests geared towards topical themes in response to team member feedback.
- Continue to host monthly "Midday with Marcie" virtual CEO lunches with team members across the organization
- Utilizing an online internal tool called Yammer to serve as a platform for team member engagement and collaboration.

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**INCENTIVE METRICS**

**Total Fund Performance (15% plan weight)**

The Total Fund Performance Metric is measured based on fund performance against the policy benchmark for the five-year period of July 1, 2017, through June 30, 2022. Payout ratio for intermediate results will be determined by interpolation.

Variance (bps) from Benchmark	Payout Ratio
+35	1.50 (150%)
+30	1.41 (141.7%)
+20	1.25 (125%)
+5	1.00 (100%)
0	0.76 (76.3%)
-15	0.05 (5%)
< -15	0.00 (0%)

**Enterprise Operational Effectiveness (20% plan weight)**

The Enterprise Operational Effectiveness 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%)

**Investment Office CEM (10% plan weight)**

The 2021-22 annual participation in the CEM benchmarking survey analyzes CalPERS' investment costs and return performance over a five-year period against a customized peer group.

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%)

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### Customer Service (15% plan weight)

The Customer Service Metric for 2021-22 is based on the following two Service Dimensions:

- Benefit Payment Timeliness: Percentage of benefit payments issued to our customers within established service levels
- Customer Satisfaction: Customer satisfaction 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%	0.00 (0%)

### Stakeholder Engagement (15% plan weight)

The Stakeholder Engagement Metric for 2021-22 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%)